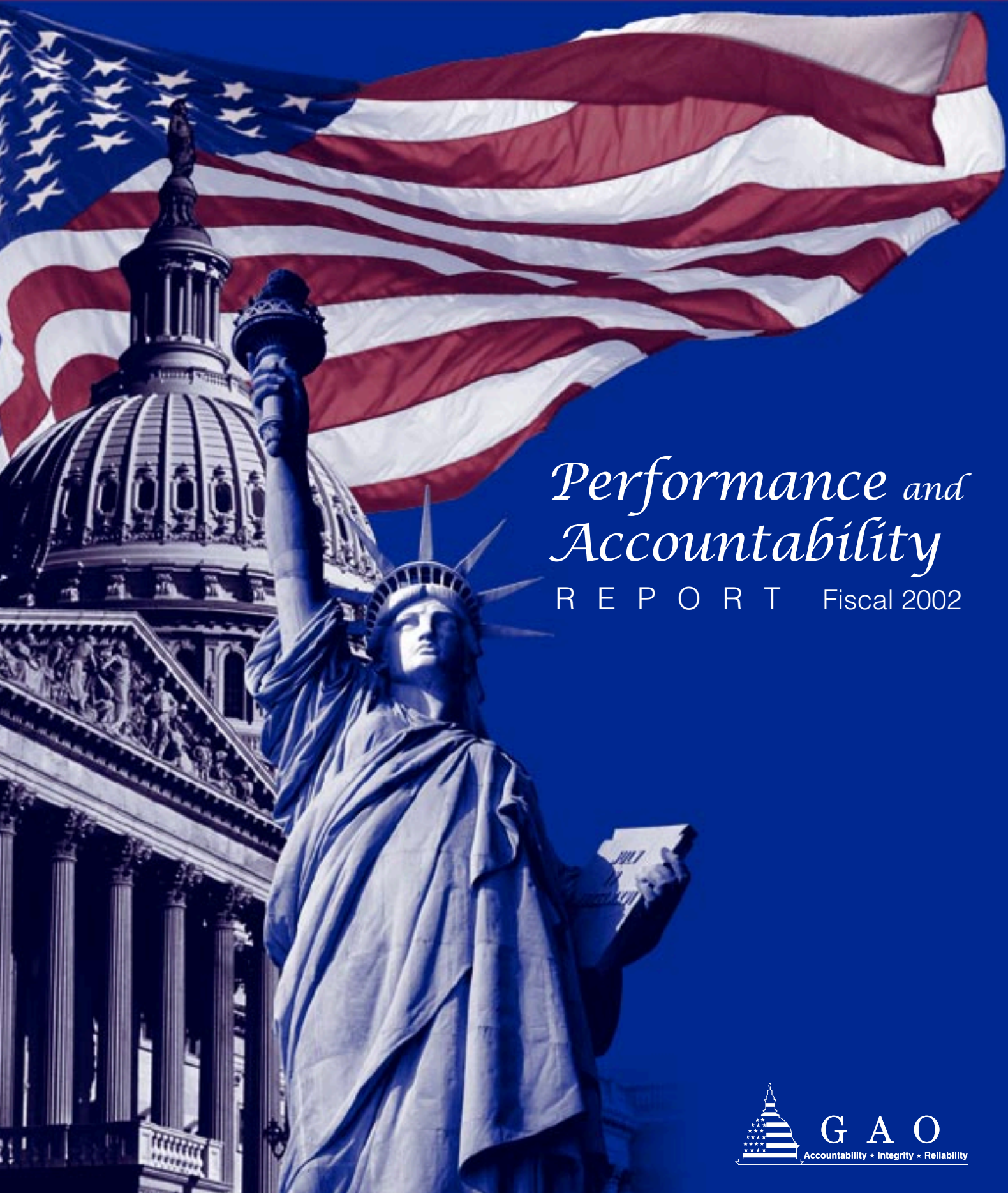


U . S . G E N E R A L A C C O U N T I N G O F F I C E

S E R V I N G T H E C O N G R E S S A N D T H E N A T I O N



*Performance and  
Accountability*

R E P O R T Fiscal 2002

# 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.

## 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.

## 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 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, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

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## *From the Comptroller General*



Source: GAO.

January 31, 2003

It is indeed a pleasure to present GAO's performance and accountability report for fiscal 2002. In the spirit of the Government Performance and Results Act, this annual report informs the Congress and the American people about what we have achieved on their behalf. Importantly, we received a clean opinion from independent auditors on our financial statements for the 16th consecutive year. I am confident that the financial information and the data measuring GAO's performance contained in this report are complete and reliable.

The year 2002 was marked by certain new and unprecedented challenges for the federal government. In the aftermath of the September 11, 2001, terrorist attacks and the delivery of anthrax spores through the mail, securing the safety of Americans at home and abroad became the foremost national priority. It was also a year of economic challenges: not just falling stock prices, but diminished public confidence in certain corporate institutions and in the ability of government to effectively oversee financial markets. The troubles experienced at Enron and other corporations and the related conduct of auditors and various other parties had far reaching effects.

The threat of terrorism and the damage done to Americans' economic well-being in 2002 were but two challenges among many—some of them long-standing challenges with which the Congress continues to grapple. The nation's changing demographics, the educational needs of its children, the long-term viability of Social Security and Medicare, the rising cost of health care and the millions of Americans who are uninsured, the vulnerability of the government's computer systems to sabotage, the requirements of the armed forces in the face of new threats to national security—these and other challenges continued to engage the attention of the Congress and therefore helped define the year's priorities at GAO.

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As a key source of objective information and analysis, GAO played a crucial role in supporting congressional decision making. For example, GAO's work informed the debate over national preparedness strategy, helping the Congress answer questions about the associated costs and program trade-offs and providing perspectives on how best to organize and manage the new Transportation Security Administration and the new Department of Homeland Security. GAO's input was a major factor in helping to shape the Sarbanes-Oxley Act, which created the Public Company Accounting Oversight Board as well as new rules to strengthen corporate governance and ensure auditor independence. Further, GAO's work helped the Congress develop and enact election reform legislation in the form of the Help America Vote Act of 2002.

The Congress and the executive agencies took a wide range of actions based on GAO analyses and recommendations. These included reducing improper payments under the Medicare program, reducing the risks associated with agriculture loan programs, and improving the oversight of contingency appropriations for defense. In total, GAO's efforts helped the Congress and government leaders achieve \$37.7 billion in financial benefits—an \$88 return on every dollar invested in GAO.

That return on the public's investment in GAO extends beyond dollar savings to improvements in how the government serves its citizens. Whether by spurring efforts to coordinate emergency preparedness by federal, state, and local agencies; by informing the Congress and the public about the risks involved in private pension plans; or by helping federal agencies improve their oversight of the nation's food safety system, GAO is contributing directly to bettering Americans' daily lives. Another way we do this is by raising congressional and public awareness of emerging national problems. For example, we underscored for the Congress the prevalence of security weaknesses at American seaports, the nature and growing cost of identity theft, weaknesses in export controls over sophisticated weapons technologies, inadequacies in nursing home care, and shortages of children's vaccines. The more the nation's leaders in the public, nonprofit, and private sectors know about these growing challenges, the sooner they will be able to craft effective responses.

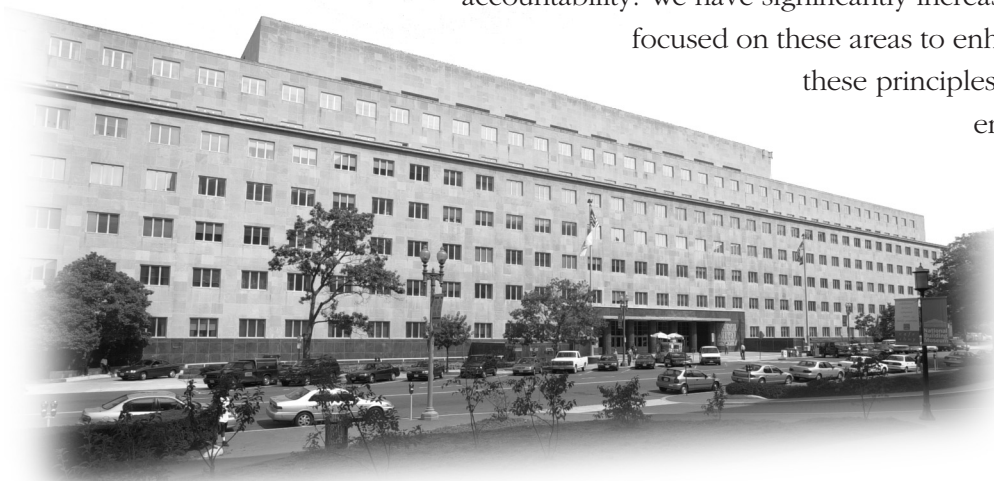
Access to the information the Congress wishes to have became a special issue for GAO during the year when, for the first time in our history, we used our statutory authority to file suit in order to obtain certain government records from an executive branch official. The action came about after we received congressional requests from four Senate Committee Chairs and Subcommittee Chairs and two House Members for information on meetings between private-sector individuals and a White House energy task force chaired by the Vice President on the development of the President's proposed National Energy Policy. Starting in May 2001, we sought limited factual information from the Vice President in his capacity as chairman of the National Energy Policy Development Group. He refused to disclose a range of information,

such as the dates, locations, subjects, and attendees involved in the group's meetings with external parties. We repeatedly explained our explicit statutory audit and access authority, streamlined our requests, and offered the White House flexibility in how the information might be provided. Furthermore, the administration did not take advantage of the statutory provision that could have prevented a suit and did not claim executive privilege. We reluctantly filed suit in federal district court in February 2002 under the provisions of GAO's statutory authorities, asking the court to direct that the requested records be produced.

In December 2002, the district court dismissed our suit for lack of standing. In doing so, the court did not address the merits of the case—including GAO's fundamental audit or access rights—but instead ruled that as Comptroller General, I lacked standing to enforce this agency's access rights in court. In his ruling, the judge stated that the issues involved and the nature of the congressional interest in the records were not sufficient to have the court decide the dispute. We strongly disagree with the court's ruling, but as this report goes to press, we are reviewing the court's decision and analyzing its basis and potential implications. Once this review is completed and we have consulted with the Congress's leadership on a bipartisan basis, I will decide whether to appeal the decision to the circuit court.

The value of information in serving our clients is driven home to us every day at GAO. It is not just a matter of obtaining facts from the executive branch but also of observing best practices in and out of government and how they are or can be applied. For instance, how well the government delivers on its promises frequently depends on how well it applies fundamental modern management principles. Strategic planning, organizational alignment, performance management, financial management, information technology, human capital strategy, knowledge management, and change management are key elements in maximizing performance and ensuring accountability. We have significantly increased the amount of our work focused on these areas to enhance the implementation of these principles throughout the federal government.

We don't just preach modern management principles at GAO. We practice what we preach, and we aim to lead by example. We continued this year to make signifi-



Source: GAO.

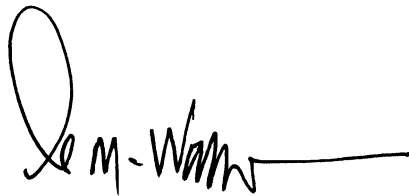
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cant progress in improving our human capital programs, our information technology capabilities, and our change management practices. All of these are key areas in which we seek to be a model for other federal agencies.

Visitors to GAO headquarters may have felt, as I do, that the building itself somehow conveys a sense of solidity and purpose. There is a new plaque in the lobby of GAO headquarters that commemorates another quality of the organization and its people: a readiness to contribute in whatever way may be needed to support our country, the Congress, and the continuity of representative government. On October 23, 2001, with only 3 days' notice, we opened our doors to the 435 members of the House of Representatives and selected members of their staffs. As they set up quarters at GAO, their Capitol Hill offices were checked for traces of anthrax. It was the first time since the War of 1812, when the Capitol and the White House were burned, that the House of Representatives sought alternative housing.

Working with congressional and contractor staff, we were able to provide the telecommunications, computer, and other services needed to conduct the business of the House as 1,200 members of our staff shifted to alternative locations. Through it all, our work went on, and we continued to issue reports and to testify on issues important to the Congress and the public. I am very proud of how, in a time of uncertainty, the people of GAO responded with a positive attitude in doing whatever their country required and an unwavering resolve to continue their work. Knowing this organization as I do, I was not surprised.

In summary, fiscal 2002 was truly an exceptional year. I believe that those who read this report will agree with me that taxpayers receive an excellent return on their investment in GAO.

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

David M. Walker  
Comptroller General  
of the United States

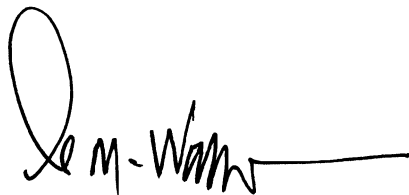
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# *The Comptroller General's Integrity Act Assurance Statement for Fiscal 2002*

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

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

I also believe these same systems of accounting and internal controls provide reasonable assurance that GAO is in compliance with the spirit of 31 U.S.C. 3512, formerly the Federal Managers' Financial Integrity Act (the Integrity Act).



David M. Walker  
Comptroller General  
of the United States

# In fiscal 2002, GAO served the Congress

- Create a national preparedness strategy at the federal, state, and local levels that will make Americans safer from terrorism
- Devise election reforms to restore voter confidence
- Protect investors through better oversight of the securities industry and the accounting profession
- Ensure a safer national food supply
- Expose the inadequacy of nursing home care
- Make income tax collection fair, effective, and less painful to taxpayers
- Strengthen public schools' accountability for educating children
- Keep sensitive American technologies out of the wrong hands
- Protect American armed forces confronting chemical or biological weapons
- Identify the risks to employees in private pension programs
- Identify factors causing the shortage of children's vaccines
- Assist the postal system in addressing anthrax and various management challenges





and the American people by helping to —

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- Identify security risks at ports, airports, and within transit systems
- Save billions by bringing sound business practices to the Department of Defense
- Foster human capital strategic management to create a capable, effective, well-managed federal workforce
- Ensure that the armed forces are trained and equipped to meet the nation's defense commitments
- Enhance the safety of Americans and foreign nationals at U.S. installations worldwide
- Assess ways of improving border security through biometric technologies and other means
- Reduce the international debt problems faced by poor countries
- Reform the way federal agencies manage their finances
- Protect government computer systems from security threats
- Enhance the transition to e-government—the new “electronic connection” between government and the public





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# GAO at a Glance

The U.S. General Accounting Office is an independent, nonpartisan, professional services agency in the legislative branch that is commonly regarded as the audit, evaluation, and investigative arm of the Congress. Created in 1921 as a result of the Budget and Accounting Act, GAO's "watchdog" role has evolved over the decades as the Congress expanded our statutory authority and called on us with increasing frequency for support in carrying out its legislative and oversight responsibilities.

Today, we examine the full breadth and scope of federal activities and programs, publish thousands of reports and other documents annually, and provide a number of related services intended to aid decision makers and the general public alike. We also study national and global trends to anticipate their implications for public policy. By making recommendations to improve the accountability, operations, and services of government agencies, GAO contributes not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in their government.

To accomplish our mission, we rely on a workforce of highly trained professionals who hold degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, computer science, and the social and physical sciences. They are arrayed in 13 research, audit, and evaluation teams and one temporary or "virtual" team on national preparedness. These teams are backed by staff offices and mission support units. 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.

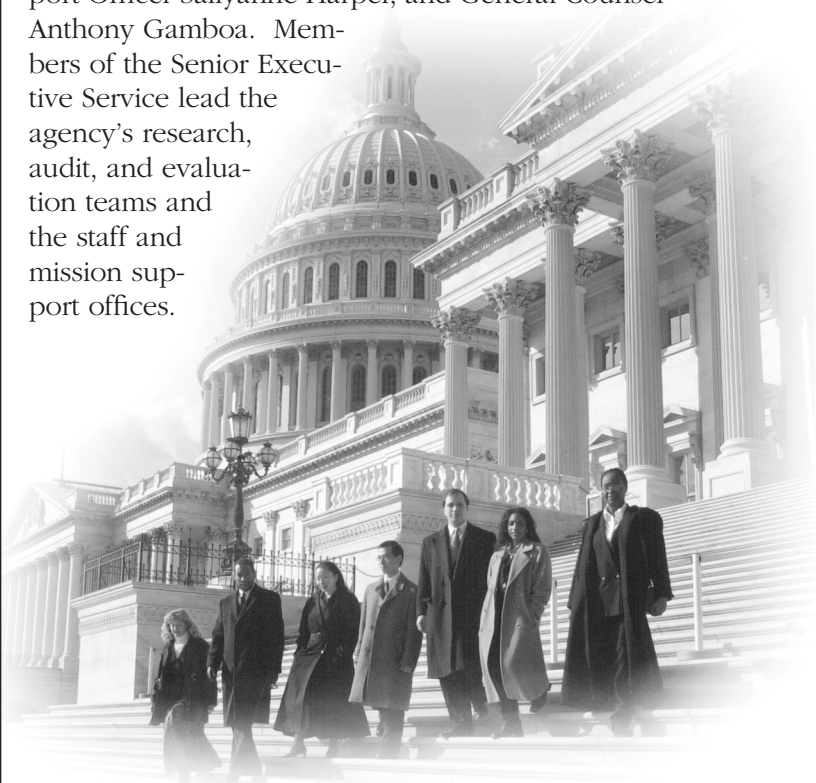
The agency's chief executive officer is the Comptroller General of the United States, who is appointed to a 15-year term. The Comptroller General is nominated by the President from a list of candidates submitted by a bipartisan commission of

## GAO's Locations



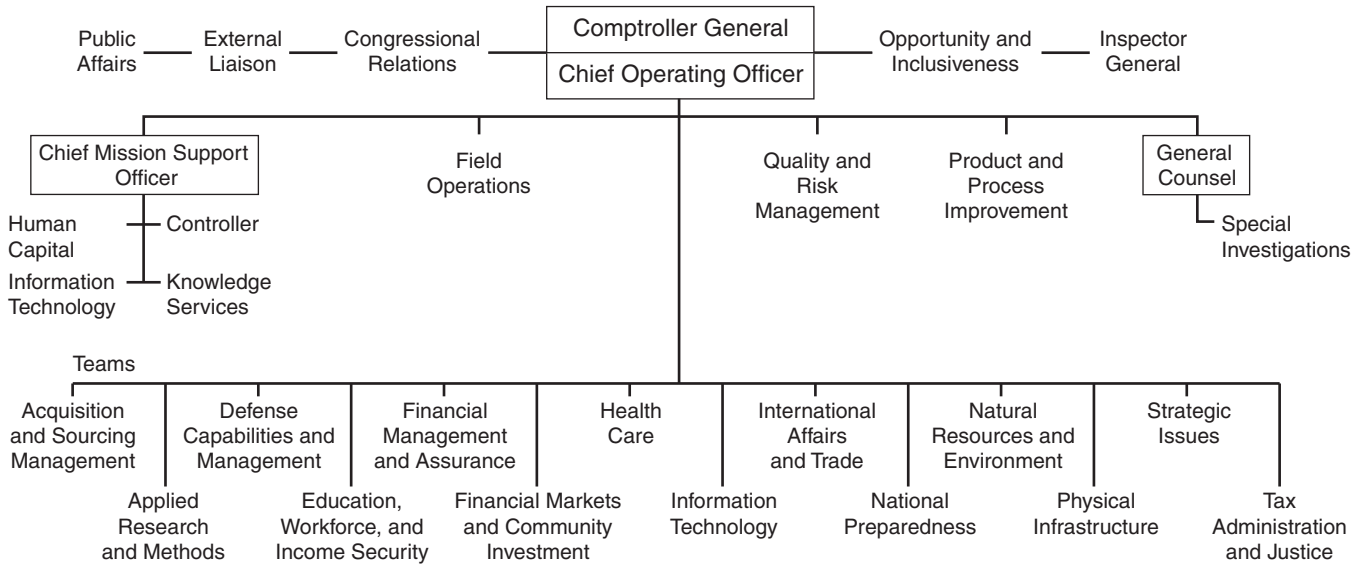
Source: GAO.

Senate and House leaders and must be confirmed by the Senate. The current Comptroller General is David M. Walker, who began his term in November 1998. He is assisted by an executive committee consisting of Chief Operating Officer Gene L. Dodaro, Chief Financial Officer/Chief Mission Support Officer Sallyanne Harper, and General Counsel Anthony Gamboa. Members of the Senior Executive Service lead the agency's research, audit, and evaluation teams and the staff and mission support offices.



Source: GAO.

GAO's Structure for Fiscal 2002



Source: GAO.

Note: National Preparedness is a temporary or “virtual” team.

To ensure that GAO is well positioned to meet the Congress’s future needs, those executives and the staff they direct update the agency’s 6-year strategic plan every 2 years, consulting extensively during the update with GAO’s clients on Capitol Hill and with other experts. Using the plan as a blueprint, we lay out the areas in which we expect to conduct research, audits, analyses, and evaluations to meet our clients’ needs, and we allocate the resources we receive from the Congress accordingly. Given the increasingly fast pace with which crucial issues emerge and evolve, we design flexibility into our plans and our staffing structure so that we can respond readily to the Congress’s changing priorities. When we revise our plans or our allocation of resources, we disclose those changes in annual performance plans and revised performance plans, all of which are—like our strategic plan updates—posted on the Web for public inspection ([www.gao.gov/sp.html](http://www.gao.gov/sp.html)). Each year, we hold ourselves accountable to the Congress and to the American people for our performance, primarily through the report you are reading.

The Congress directs GAO to conduct specific engagements through requests from committee Chairmen, Ranking Minority Members, and other Members of Congress and through mandates written into legislation, resolutions, and committee reports. In fiscal 2002, 89 percent of GAO’s engage-

ments were initiated by the Congress. The remaining 11 percent of the engagements were initiated independently by GAO as authorized by the agency’s enabling legislation.

As a legislative branch agency, GAO differs in some ways from executive branch agencies. We are, for instance, exempt from many laws designed to improve the performance and accountability of the executive branch. But because one of our strategic goals is to maximize our value by serving as a model agency for the federal government, we hold ourselves to the spirit of many of these laws, including 31 U.S.C. 3512 (formerly the Federal Managers’ Financial Integrity Act), the Federal Financial Management Improvement Act of 1996, the Government Performance and Results Act of 1993, and the Reports Consolidation Act of 2000. Accordingly, this consolidated performance and accountability report for fiscal 2002 supplies what we consider to be information that is the equivalent of that supplied by executive branch agencies in their performance and accountability reports.

On the pages that follow, we assess our performance for fiscal 2002 against our performance goals and our past performance. We also present our financial statements and the independent auditor’s opinion. We will issue our performance plan for fiscal 2004 as soon as the budget process permits,

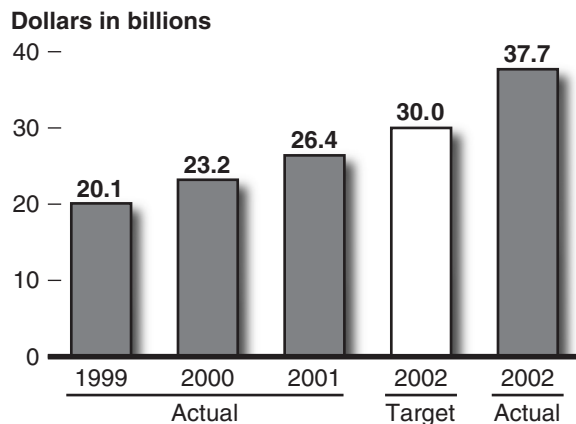
but we have included some tentative information about future plans in this report to provide as cohesive a view as possible of what we have done, what we are doing, and what we expect to do to support the Congress and to serve the nation.

# Performance at a Glance

We use seven annual measures to help assess GAO's performance in meeting our strategic goals and objectives for serving the Congress. They show the degree to which our work is benefiting the Congress and the American people and whether GAO is laying a foundation for future benefits by providing the Congress with the most imminent and high-profile information it requests, developing ways to improve government, and tracking whether those

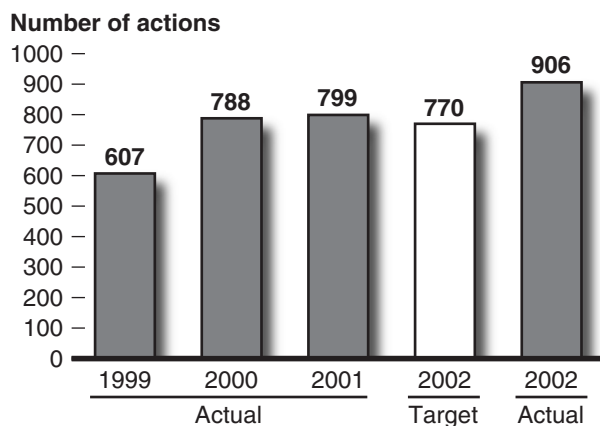
improvements are made. In fiscal 2002, GAO exceeded the performance targets for six of these seven annual measures. We also use an eighth, biennial, indicator that tracks our progress on work we laid out under performance goals in our strategic plan. This indicator shows we are on track for meeting 95 percent of our performance goals by the end of fiscal 2003.

## Financial Benefits



Source: GAO.

## Other Benefits



Source: GAO.

## Financial benefits: \$37.7 billion

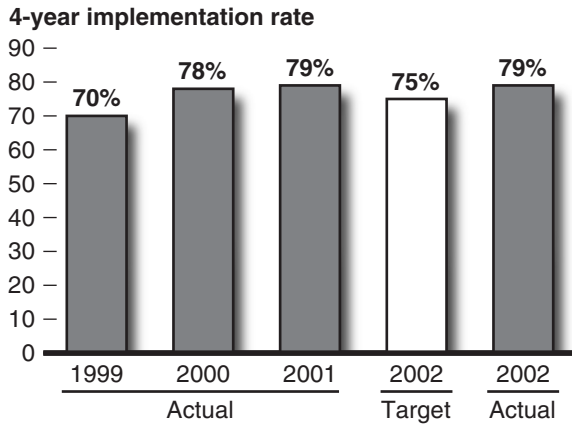
The financial benefits GAO reports are generated when agencies act on GAO's findings and recommendations to make government services more efficient, to improve budgeting and spending of tax dollars, or to strengthen the management of federal resources. GAO's work to curb Medicare fraud and abuse, to improve budgeting practices for public housing programs, and to reduce losses from farm loans yielded more than \$17.8 billion—or nearly half of the year's total. About 11 percent of the increase between fiscal 2001 and 2002 is attributable to a change in our methodology for calculating financial benefits.

## Other benefits: 906 actions taken

Many of the benefits that flow to the American people from GAO's work cannot be measured in dollar terms. During fiscal 2002, GAO documented 65 instances in which information we provided to the Congress resulted in statutory or regulatory changes, 391 instances in which federal agencies improved services to the public, and 450 instances in which core business processes were improved at agencies or governmentwide reforms were advanced. These actions spanned the full spectrum of national issues from combating terrorism to better targeting funds to high-poverty school districts.

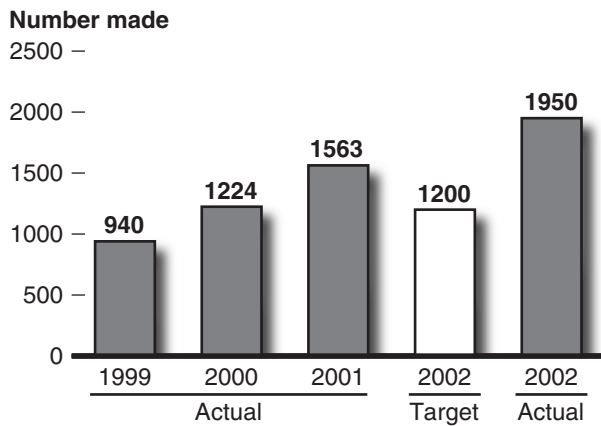


**Past Recommendations Implemented**



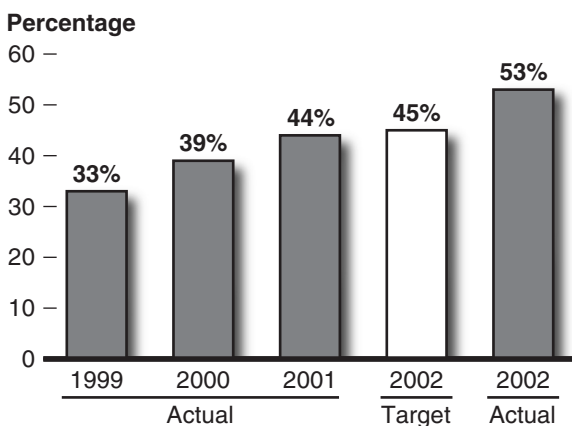
Source: GAO.

**New Recommendations Made**



Source: GAO.

**New Products with Recommendations**



Source: GAO.

**Past recommendations implemented: 79 percent**

One way we measure our impact in 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 2002, 79 percent of the recommendations we made in fiscal 1998 had been implemented, primarily by executive branch agencies. It is putting those recommendations into practice that will generate tangible benefits for the American people in the years ahead.

**New recommendations made: 1,950**

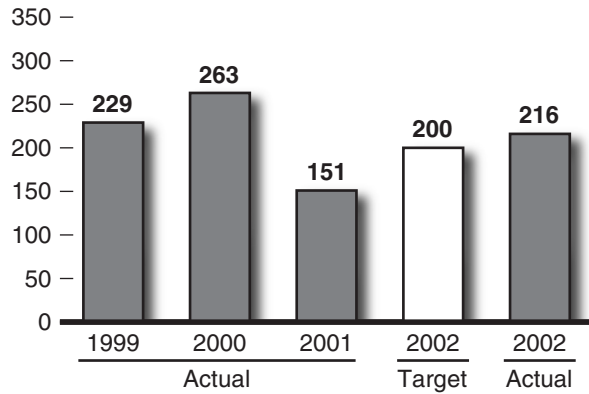
Because developing implementable recommendations is an important part of GAO's work for the Congress and helps to improve how the government functions, we track the number made each year. For example, the 1,950 made in fiscal 2002 include recommendations to the Secretary of State calling for the development of a governmentwide plan to help other countries combat nuclear smuggling and those to the Chairman of the Federal Energy Regulatory Commission calling for the agency to develop an action plan for overseeing competitive energy markets.

**New products containing recommendations: 53 percent**

This measure recognizes that a report containing a single broad recommendation may have more impact than a report containing a dozen specific ones. We also understand that GAO's congressional clients often want products that are purely informational and contain no recommendations. Hence, the target provides ample leeway for responding to requests for informational products.

**Testimonies**

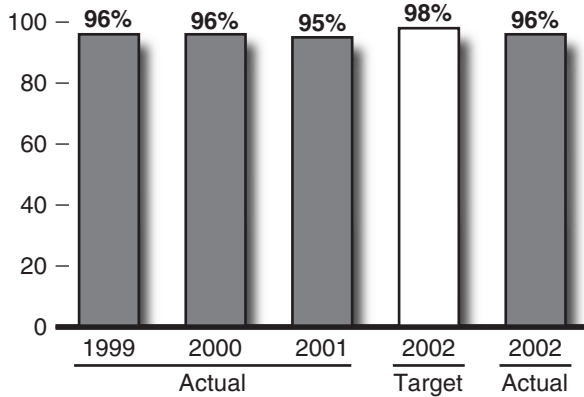
Hearings at which GAO testified



Source: GAO.

**Timeliness**

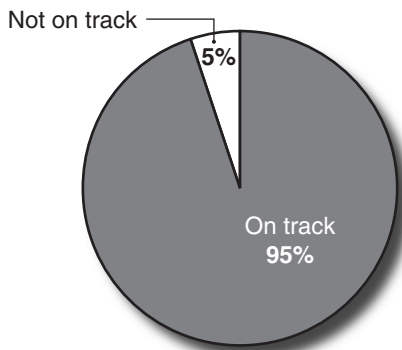
Products on time



Source: GAO.

**Two-Year Performance Goals**

98 two-year performance goals



Source: GAO.

**Testimonies: 216**

During fiscal 2002, experts from GAO’s staff testified at 216 congressional hearings covering a wide range of complex issues. On national preparedness alone, we testified on border security, bioterrorism, nuclear smuggling, seaport and aviation security, and the formation of the Department of Homeland Security. Among the other topics addressed were protecting against foodborne illnesses, reducing the threat of wildfires, and safeguarding nursing home residents from abuse.

**Timeliness: 96 percent**

We chart the percentage of our products that are delivered on the day we agreed to with our congressional clients because for our work to be used it must be timely. While a vast majority of our products were on time in fiscal 2002, we missed our target of providing 98 percent of them on the promised day and are taking steps to improve our performance in the future.

**Two-year performance goals: 93 of 98 on track**

In addition to our seven annual measures, we track GAO’s progress on 2-year performance goals that describe the work we planned to do to achieve our strategic goals and objectives. At the end of fiscal 2002—the halfway point in the assessment cycle—GAO’s senior managers reported that enough work had been completed or was under way for the agency to meet 95 percent of GAO’s performance goals by the end of fiscal 2003.

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# *How to Use this Report*

This report consolidates GAO's performance and accountability reports for fiscal 2002 as called for by the Reports Consolidation Act of 2000. In assessing our performance, we are comparing actual results against targets and goals set in our annual performance plan, which we developed to help us carry out our strategic plan. Our complete set of strategic planning and performance and accountability reports is available from our Web site at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

This report has four major parts:

## ■ **Management's Discussion and Analysis**

Look here for high-level summaries of our performance and use of resources in fiscal 2002. Look here also for information on the strategies we use to achieve our goals and the management challenges and external factors that affect our performance.

## ■ **Performance Information**

Look here for details on our performance in fiscal 2002, the targets we are aiming for in fiscal 2003, and for explanations of how we assess GAO's performance and how we ensure the completeness and reliability of the performance data used in this report.

## ■ **Financial Information**

Look here for details on our finances in fiscal 2002, including a letter from GAO's Chief Financial Officer, our audited financial statements and notes, and the reports from our external auditor and our audit advisory committee. Look here also for information on our internal controls and for an explanation of what kind of information each of our financial statements conveys.

## ■ **Appendixes**

Look here for detailed write-ups about our accomplishments and contributions recorded in fiscal 2002, for our Inspector General's assessment of our agency's management challenges, for our reports on our implementation of P.L. 106-303 (an act giving GAO certain human capital management flexibilities) and on information security reform measures.



A black and white photograph of a classical building facade. The image features several tall, fluted columns with ornate capitals. In the foreground, a balcony with a decorative railing is visible. The lighting creates strong shadows, highlighting the textures of the stone and the architectural details.

*Part I:  
Management's  
Discussion and  
Analysis*

## *Serving the Congress and the Nation*

Fiscal 2002 was a year of challenges, not just for GAO but also for the Congress and the nation GAO serves. The nation's vulnerabilities were exposed in a series of crises—America's vulnerability to sophisticated terrorist networks, America's vulnerability to bioterrorism waged through mechanisms as mundane as the daily mail, and America's vulnerability to corporate misconduct capable of wiping out jobs, pensions, and investments virtually overnight. As the Congress's priorities evolved to meet these crises, GAO's challenge was to respond quickly and effectively to our congressional clients' changing needs. Under our original strategic plan, published in spring 2000, we had already streamlined and realigned GAO's structure and resources to better serve the Congress in its legislative, oversight, and investigative roles. The new human capital initiatives we had begun, including recruiting, hiring, and professional development, equipped us to operate in a constantly changing knowledge environment. The steps that we took to enhance our information technology capabilities served to increase our productivity, consistency, and responsiveness. And with work already under way across a spectrum of critical policy and performance issues, we had a head start toward meeting the Congress's needs in a year of unexpected and often tumultuous events.

We were, for instance, asked to assist with the deliberations over the Department of Homeland Security's formation by looking into questions involving flexibilities for managing human capital, information sharing, management, acquisition, budget and program transfer authorities; and lessons available from other reorganizations in the public and private sectors. Teams with different specialties from across GAO collaborated on that effort and also pursued specific aspects of national preparedness. For example, building on an extensive body of completed work, we provided important information to the Congress as it drafted the Aviation and Transportation Security Act, while providing continuing assistance with information on aviation, port, and transit security. Building on our previous



Source: Library of Congress and GAO.

work on the outbreak of West Nile virus and our examination of state and local efforts to meet the challenges all epidemics pose—those of detection and treatment—we aided the Congress's decision making about how to equip and organize the Department of Homeland Security to prepare for and respond to bioterrorism. We were also deeply involved in congressional efforts to address terrorism insurance issues—presenting alternative strategies and suggesting guiding principles based on past efforts to assist industries and firms in times of crisis, such as the savings and loan industry and, more recently, the aviation industry.

As we gathered information and conducted analyses for the Congress, developed recommendations for improvements, and detailed the potential ramifications of homeland security issues, we continued work on the issues that the Congress had been addressing before homeland security gripped the nation's attention. Among those continuing issues were many that directly affected the lives of Americans:

- We, for instance, helped policymakers probe the issues behind the shortages in the supplies of vaccines for childhood illnesses, such as measles, mumps, rubella, and tetanus, clarifying the variety of contributing factors and exploring the key questions, such as how more manufacturing and competition can be encouraged, how adequate oversight can be provided, and how stockpiles can be amassed.

■ Our work also helped policymakers—and the public—understand private pension issues in the wake of the Enron bankruptcy and other corporate failures, including the questions they raised for workers nationwide. For instance, in early 2002, the Comptroller General convened a forum on corporate governance, transparency, and accountability that highlighted a number of systemic issues, including concerns related to employee pension and savings plans. And we alerted the Congress to weaknesses that may exist in the legal protections for employee pensions. We highlighted the ways in which employers' stock investment decisions can increase the risks to which employees' pension plans are exposed and recommended improvements to the information employees must receive. We also issued a guide for Members of Congress, their staffs, and the public called *Answers to Key Questions about Private Pension Plans* ([www.gao.gov/cgi-bin/getrpt?rptno=GAO-02-745sp](http://www.gao.gov/cgi-bin/getrpt?rptno=GAO-02-745sp)), which explains in easy-to-understand terms the concepts and rules that last year became sharply relevant to the future economic security of millions of Americans.

■ Our work on the elections process contributed to reform legislation drafted in response to the voting problems that gained national prominence in the November 2000 presidential election. A series of our reports disclosed major challenges involving the people, processes, and technology used at each stage of the election process—registering voters, absentee and early voting, preparing for and conducting election day activities, and tabulating votes in the 10,000 local election jurisdictions nationwide. The legislation passed by the Congress addresses federal subsidies for voting machinery, standards for the equipment, improved voter registration rolls, and improved access for voters with disabilities.

By year's end, we had testified 216 times before the Congress, sometimes on as little as 24 hours' notice, on a range of issues, including those listed on the next page. We had filled hundreds of urgent requests for information. We had developed 1,950 recommendations for improving the government's operations, including, for example, those we made to the Secretary of State calling for the development of a governmentwide plan to help other countries combat nuclear smuggling and those we made to the Chairman of the Federal Energy Regulatory

Commission calling for his agency to develop an action plan for overseeing competitive energy markets. We also had continued to track the recommendations we had made in past years, checking to see that they had been implemented and, if not, deciding whether we needed to do follow-up work on problem areas. We found, in fact, that 79 percent of the recommendations we had made in fiscal 1998 had been implemented, a significant step when the work we have done for the Congress becomes a catalyst for creating tangible benefits for the American people.

In fiscal 2002, we recorded 906 instances in which our work led to improvements in government operations or programs. For example, by acting on GAO's findings or recommendations, the federal government has taken important steps toward enhancing aviation safety, improving pediatric drug labeling based on research, better targeting of funds to high-poverty school districts, greater accountability in the federal acquisition process, and more effective delivery of disaster recovery assistance to other nations, among other achievements. In another 115 instances, federal action on GAO's findings or recommendations produced financial benefits for the American people: a total of \$37.7 billion was achieved by making government services more efficient, improving the budgeting and spending of tax dollars, and strengthening the management of federal resources. Increased funding for improved safeguards against fraud and abuse helped the Medicare program to better control improper payments of \$8.1 billion over 2 years, for instance, and better policies and controls reduced losses from farm loan programs by about \$4.8 billion across 5 years. Altogether, GAO's fiscal 2002 financial benefits translate into a financial return on investment of \$88 for every dollar budgeted for GAO.

Of our seven agencywide annual performance targets (see the table), only one was not met: timeliness. While we provided 96 percent of our products to their congressional requesters by the date promised, we have yet to hit this measure's target of 98 percent on-time delivery. The year's turbulent events played a part in our missing the target, causing us to delay work in progress when higher-priority requests came in from the Congress. We know we will continue to face factors beyond our control as we strive to improve our performance in this area. But we believe the agency

**Selected Public Laws to Which GAO Contributed During Fiscal 2002 Included—**

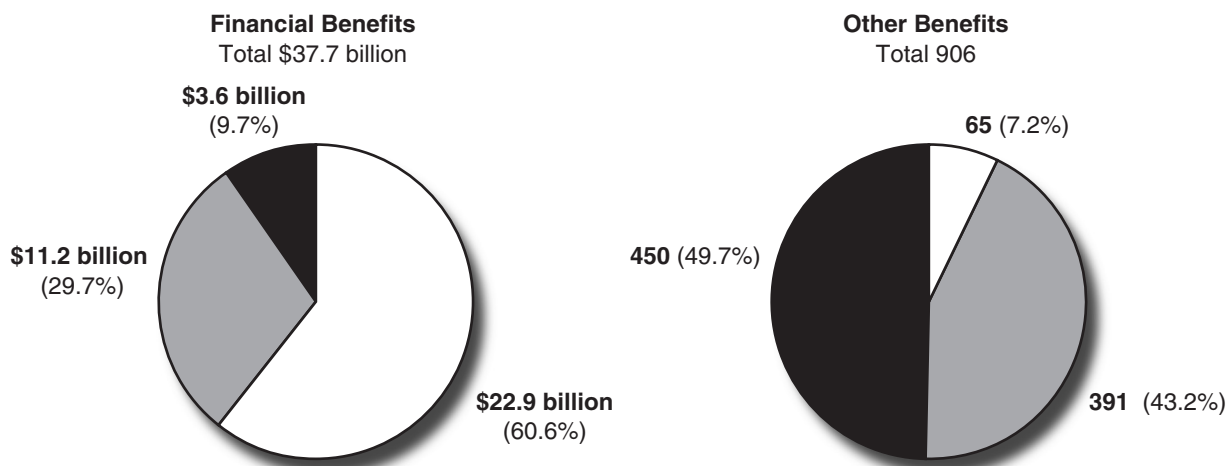
- Prescription Drug User Fee Amendments of 2002, P.L. 107-188
- Best Pharmaceuticals for Children Act, P.L. 107-1092
- No Child Left Behind Act of 2001, P.L. 107-110
- Food Stamp Reauthorization Act of 2002, P.L. 107-171
- Help America Vote Act of 2002, P.L. 107-252
- Homeland Security Act of 2002, P.L. 107-296
- Public Health Security and Bioterrorism Preparedness and Response Act of 2002, P.L. 107-188
- Aviation and Transportation Security Act, P.L. 107-71
- Department of Defense Appropriation Act, 2003, P.L. 107-248
- Department of Defense and Emergency Supplemental Appropriations for Recovery From and Response to Terrorist Attacks on the United States Act, 2002, P.L. 107-117
- Bob Stump National Defense Authorization Act for Fiscal Year 2003, P.L. 107-314
- Foreign Relations Authorization Act, Fiscal Year 2003, P.L. 107-228
- Small Business Paperwork Relief Act of 2002, P.L. 107-198
- Federal Information Security Management Act of 2002, P.L. 107-347
- Sarbanes-Oxley Act of 2002, P.L. 107-204
- National Defense Authorization Act for Fiscal Year 2002, P.L. 107-107
- Legislative Branch Appropriations, Fiscal Year 2002, P.L. 107-68
- Improper Payments Information Act of 2002, P.L. 107-300
- Trade Act of 2002, P.L. 107-210
- Terrorism Risk Insurance Act of 2002, P.L. 107-297
- E-Government Act of 2002, P.L. 107-347

protocols we are piloting will help clarify aspects of our interactions with the agencies we evaluate and audit and ultimately expedite our work in ways that could improve the timeliness of our final products. We also believe that our continuing investments in

human capital and information technology will improve our timeliness while allowing us to maintain our high level of productivity and performance overall. These initiatives are among those discussed later in this report.



## Types of Benefits Recorded in Fiscal 2002 from GAO's Work



### Categories

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

Source: GAO.

Note: Percentages may not total 100 because of rounding.

### Agencywide Summary

Measure	Actual	Target	Met?
Financial benefits	\$37.7 billion	\$30 billion	Yes
Other benefits	906	770	Yes
Past recs implemented	79%	75%	Yes
New recs made	1,950	1,200	Yes
New products with recs*	53%	45%	Yes
Testimonies	216	200	Yes
Timeliness*	96%	98%	No

\*Measure is used at the agencywide level but not at the goal level.

At the beginning of fiscal 2002, as we prepared an updated draft of our strategic plan for congressional comment—extending the plan to fiscal 2007 and factoring in developments that had occurred since we first issued it in fiscal 2000—it was clear that the world had changed considerably. When the original plan was issued, the nation had been enjoying a period of peace and prosperity, with large budget surpluses projected into the future. When the updated plan went onto the Web in 2002, the nation was at war against terrorism, both within and out-

side its borders. The economic outlook had become difficult to predict. And the federal government faced the return of serious, long-range budget deficits and the burden they impose on the nation's future prosperity.

The updated plan carried forward the four strategic goals we had already established as the organizing principles for a body of work that is as wide-ranging as the interests and concerns of the Congress itself:

- 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.
- Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.
- Help transform the federal government's role and how it does business to meet 21st century challenges.

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

While these strategic goals help us plan our work and assess our progress in fulfilling our mission to serve the Congress and the nation, they are not separate endeavors. We developed them with the intention of moving away from “siloed”—or compartmentalized—approaches to doing business on a matrixed basis. As the challenges facing policymakers grow more complex and interdependent, the only way a knowledge-based, multidisciplinary professional services organization such as GAO can be

effective is to be flexible and capable of responding quickly to change. As a result, we have sought more cooperative, partnerial approaches that maximize the skills and expertise of people working together toward the same ends.

Later sections of this report highlight our performance under each of our strategic goals, how we used our resources in fiscal 2002, the management challenges we face, and other matters. But first, we look briefly at how the high-risk program GAO established in 1990 has influenced the performance of federal agencies.

# ISSUES ON WHICH GAO TESTIFIED DURING FISCAL 2002

## GOAL 1

### Well-Being and Financial Security of the American People

Aviation security  
Bioterrorism  
Blood supplies  
Child welfare  
Childhood vaccines  
Coast Guard's security missions  
Customs' cargo inspections  
Disability programs  
EPA cabinet status  
FBI reorganization  
Federal property management reform  
Food safety  
Highway trust fund  
Housing  
HUD management reform  
Identity theft  
Immigration enforcement  
Indian tribal recognition  
Intercity passenger rail  
Long-term care  
Medicare payments  
Nuclear waste storage  
Nursing homes  
Postal Service challenges  
Public health aspects of homeland security  
Retiree health insurance  
SBA's human capital challenges  
Social Security reform  
Transit safety and security  
VA health care  
Welfare reform  
Wildfire threats  
Workforce development

## GOAL 2

### Changing Security Threats and Challenges of Globalization

A-76 competitive sourcing  
Anthrax vaccine  
Ballistic missile defense  
Chemical and biological preparedness  
Combating terrorism  
Compact with Micronesia  
Conflict diamonds  
Debt relief for poor countries  
Encroachment on training ranges  
Export controls  
Food aid  
Foreign language needs  
Gulf War illnesses  
Information security aspects of homeland security  
International trade  
Nuclear smuggling  
Organizational aspects of homeland security  
SEC's human capital challenges  
Strategic seaport protection  
Terrorism insurance  
U.S. overseas presence  
Weapons of mass destruction

## GOAL 3

### Transforming the Federal Government's Role

Contract management  
Contracting for services  
Corporate governance and accountability  
Debt collection  
DOD financial management  
Electronic Government Act of 2002  
Electronic-government security  
Enterprise architecture  
Federal budget issues  
Federal building security  
Federal financial management reform  
Federal rulemaking requirements  
Freedom to Manage Act  
Human capital strategy  
Illegal tax schemes and scams  
Intergovernmental aspects of homeland security  
IRS modernization  
Medicaid financial management  
NASA's management challenges  
President's Management Agenda  
Purchase card controls  
Securing America's borders  
U.S. government's financial statements



## GAO's High-Risk Program

*Helping to Improve the Performance and Accountability of the Federal Government*

Every 2 years, with the start of each new Congress, we issue an update of our high-risk series, identifying and reporting on federal programs and operations that have greater vulnerabilities to waste, fraud, abuse, and mismanagement or that have major challenges associated with their economy, efficiency, or effectiveness. Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of the national government, and ensure the ability of government to deliver on its promises.

Since 1990, the Congress's and federal agencies' commitment to resolving serious, long-standing high-risk problems has paid off—the root causes of half the 14 high-risk areas on our original list have been addressed. This sustained commitment continues to produce results. In 2001, GAO identified 23 high-risk areas. Since then, demonstrable progress has been made in virtually all of them. In two of those areas, the Supplemental Security Income program and the asset forfeiture programs managed by the Departments of the Treasury and Justice, GAO has determined that sufficient progress has been made to remove the high-risk designation.

GAO has increasingly used the high-risk designation to draw attention to the challenges faced by government programs and operations in need of broad-based transformation. For example, in 2001, GAO designated as high risk strategic human capital management across government and the U.S. Postal Service's transformation and fiscal outlook. Since then, the President has made human capital a top initiative of his Management Agenda, while the Congress has enacted key governmentwide human capital reforms as it created the Department of Homeland Security. In addition, a promising Postal



Source: Library of Congress and GAO.

Service transformation plan has been produced and the President has formed a commission to focus on Postal Service transformation.

With these positive results in mind, for 2003, GAO has designated four additional high-risk areas. Three are based on challenges involving broad-based transformation or the need for legislative solutions. The first is implementing and transforming the Department of Homeland Security, which is a high-risk area because of the sheer size of the undertaking, the fact that the department's proposed components already face a wide array of existing challenges, and the prospect of serious consequences for the nation should the department fail to adequately address its management challenges and program risks. A related homeland security challenge will be to protect information systems supporting the federal government and the nation's critical infrastructures; information security has been a high-risk area since 1997 and has been expanded this year to include both of these concerns.

The second new high-risk area involves disability programs, primarily those at the Social Security Administration and the Department of Veterans Affairs. Already growing, disability programs are poised to surge as baby boomers age, yet the programs remain mired in outdated economic, workforce, and medical concepts and are poorly positioned to provide meaningful and timely support to disabled Americans.

The third new high-risk area involves federal real property, based on long-standing problems such as excess and underutilized property and deteriorating facilities, as well as increased security challenges from the threat of terrorism.

This year's fourth new area is high risk under our more traditional criteria involving fraud, waste, abuse, or mismanagement. It involves the Medicaid

program, in part because of growing concerns about inadequate fiscal oversight to prevent inappropriate state spending, which increases federal spending unnecessarily.

To learn more about these new high-risk areas or to download the update in full, go to [www.gao.gov/pas/2003/](http://www.gao.gov/pas/2003/).

### 2003 High-Risk List

High-risk area	Year designated high risk
<b>Addressing challenges in broad-based transformations</b>	
Strategic human capital management*	2001
U.S. Postal Service transformation efforts and long-term outlook *	2001
Protecting information systems supporting the federal government and the nation's critical infrastructures	1997
Implementing and transforming the new Department of Homeland Security	2003
Modernizing federal disability programs *	2003
Federal real property *	2003
<b>Ensuring major technology investments improve services</b>	
FAA air traffic control modernization	1995
IRS business systems modernization	1995
DOD systems modernization	1995
<b>Providing basic financial accountability</b>	
DOD financial management	1995
Forest Service financial management	1999
FAA financial management	1999
IRS financial management	1995
<b>Reducing inordinate program management risks</b>	
Medicare program *	1990
Medicaid program *	2003
Earned income credit noncompliance	1995
Collection of unpaid taxes	1990
DOD support infrastructure management	1997
DOD inventory management	1990
HUD single-family mortgage insurance and rental assistance programs	1994
Student financial aid programs	1990
<b>Managing large procurement operations more efficiently</b>	
DOD weapon systems acquisition	1990
DOD contract management	1992
Department of Energy contract management	1990
NASA contract management	1990

\* Additional authorizing legislation is likely to be required as one element of addressing this high-risk area.

# SERVING THE CONGRESS 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.

**T H E M E S**

- Security and Preparedness
- Globalization
- 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
- Effective system of justice
- Education and protection of children
- Viable communities
- Work opportunities and worker protection
- Natural resources use and environmental protection
- Retirement income security
- Physical infrastructure

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

- Diffuse security threats
- Advancement of U.S. interests
- Military capabilities and readiness
- 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
- Progress toward results-oriented, accountable, and relevant government
- Human capital and other capacity for serving the public
- 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 service
- Process improvement
- Leadership and management focus
- Employer of choice
- Institutional knowledge and experience

## CORE VALUES

Accountability

Integrity

Reliability

Fiscal 2002-2007

Source: GAO.

## Goal 1

### *Addressing Challenges to the Well-Being and Financial Security of the American People*

The Congress's legislative and oversight responsibilities lead it to examine issues that weave through the lives of many American communities and virtually every American. Consequently, the congressional requests that drive most of GAO's work take our people through the doors of every federal agency and many other organizations, seeking information and ways to improve how the government serves the public. Our work under our first strategic goal spans the cradle-to-grave issues of American life from the health and education of the nation's children, to their employability and working conditions as adults, to their financial security as retirees. Our work under this goal also looks at the viability of the communities Americans live in, their ability to move safely and efficiently around those communities and around the world, the natural resources that literally fuel their every endeavor, and the justice system that keeps wrongs from trampling their individual liberties.

It was under goal 1, for example, that we conducted a number of the engagements highlighted in the previous section, helping the Congress to make informed decisions on the shortages of vaccines for childhood illnesses, on the necessary safeguards against improper Medicare payments to health care providers, on preparing the nation to confront bioterrorism, on curbing losses from farm loan programs, on crafting election reforms to end the voting problems that have marred two national elections, and on understanding private pension issues. But our work during fiscal 2002 accomplished much more as well:

- Helping to make the food supply safer for the American people—Although the U.S. food supply is regarded as one of the safest in the world, foodborne illnesses continue to be an extensive and costly problem that raises concerns about the federal government's ability to ensure the safety



Source: See Image Sources.

of domestic and imported foods. Recently, the threat of deliberate contamination of the nation's food supply by terrorists has elevated these concerns significantly. Our assessments of federal efforts to ensure the safety of the food supply have helped the Congress and agencies strengthen oversight and enforcement. For example, the Congress included several food safety provisions in the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

- Alerting the public to the inadequacy of care in certain nursing homes—Our groundbreaking work over the past 5 years has helped raise public awareness of the terrible conditions prevalent in some 15 percent of America's nursing homes, where serious and recurring problems have caused physical and emotional harm to patients. In response to our recommendations, the Centers for Medicare and Medicaid Services, which oversees nursing facilities, has increased the rigor of its inspections, its responsiveness to complaints, and its application of sanctions to offending facilities. Our work has spurred a growing understanding of the dimensions of the problem and increased the likelihood that effective federal actions will be taken.
- Helping ensure accountability for educating children in the public schools—In 1994, concerned that federal funding was not significantly improving the educational progress of at-risk students, the Congress began requiring

states to ensure accountability in their public school systems. One key requirement was student testing. The No Child Left Behind Act, passed in 2001, built on those requirements, raising the stakes for schools that fail to make adequate progress. A year after the new act's passage, GAO, collaborating with other accountability organizations, studied the states' implementation of the 1994 requirements and found widespread shortcomings, raising the question of how well the states can fulfill the additional requirements of the 2001 law. The lesson learned from this work is that setting accountability requirements, such as student testing, is only part of the job. Effective implementation, including such basics as ensuring that tests are scored accurately, is no less important.

- Helping to enhance the oversight of restructured energy markets to better protect consumers—The electricity and natural gas industries are changing from being regulated monopolies to players in a competitive market environment. During the transition, GAO has made important contributions in clarifying key issues for the Congress, issues such as the implications for the energy markets of Enron's collapse, how market power has been exercised in California, the reasons for price spikes in the natural gas markets, and the Federal Energy Regulatory Commission's capacity to oversee energy markets. Our work has also influenced federal decisions affecting market concentration in the ethanol market.
- Providing a roadmap for management reform at the Department of Housing and Urban Development (HUD)—GAO has designated programs in the department as high risk since 1994, and today, two of its three major program areas (representing about 70 percent of its budget) remain high risk. Our recent reports and testimonies have focused on the department's progress with management reform and with three major management challenges: human capital policies, programmatic and information management systems, and contracting practices. The department has been responsive to our findings and is taking action. During his confirmation hearings in early 2001, HUD's new Secretary, citing GAO's work, placed improving management atop the department's highest priorities. This was followed by the Bush administration's first performance plan for the department, which said that GAO's reports would be a "roadmap" for making management improvements. The Deputy Secretary reiterated the department's position before the Senate Banking Committee in July 2002, and, in particular, endorsed our characterization of the department's three major management challenges.
- Aiding congressional deliberations on surface transportation legislation—As the Congress began drafting the reauthorization of the Transportation Equity Act for the 21st Century, we assisted by identifying the major challenges that face all modes of surface transportation, including the Interstate Highway System and new transit systems. We also reviewed the continued purchasing power of the Highway Trust Fund over the next authorization period, identified alternative approaches to funding investments in surface transportation, and pointed out opportunities to improve federal research programs on surface transportation.
- Alerting the Congress to the prevalence and cost of identity theft—Identity theft is the fastest growing type of crime in the United States. It involves using another person's personal identifying information—such as Social Security number, date of birth, and mother's maiden name—for fraudulent purposes. GAO's reporting helped the Congress devise the Identity Theft and Assumption Deterrence Act of 1998; since then, most states have enacted laws that make identity theft a crime. Still, the growth of identity theft and the frequently multi- or cross-jurisdictional nature of this type of crime underscore the importance of cooperation among federal, state, and local law enforcement authorities. This year, GAO reported further on the prevalence and cost of identity theft and worked to promote awareness and the use of intergovernmental mechanisms for improving cooperation and enforcement.

We exceeded four of the goal's five targets for the year, recording \$24.1 billion in financial benefits and 226 other benefits, making 524 new recommendations for improvements to government programs and operations, and presenting 111 congressional testimonies. Although the implementation rate for recommendations we made 4 years ago rose 1



point over last year's figure for this goal, to 72 percent, we did not meet our target of implementing 75 percent of the recommendations made in fiscal 1998 by the end of fiscal 2002. For details please see the second part of this report, Performance Information.

### Strategic Goal 1 Summary

Measure	Actual	Target	Met?
Financial benefits	\$24.1 billion	\$17.0 billion	Yes
Other benefits	226	218	Yes
Recs implemented	72%	75%	No
Recs made	524	359	Yes
Testimonies	111	93	Yes

At the close of fiscal 2002, GAO was halfway through the 2-year assessment cycle for the performance goals that provide the strategies we will use to achieve our broader strategic goals and objectives. Under strategic goal 1, we have 37 performance goals, which call for GAO to undertake work ranging from assessing the effectiveness of federal initiatives assisting small and minority-owned businesses to assessing the nation's ability to ensure reliable and environmentally sound energy for current and future generations. At the midpoint mark, GAO's managers reported that enough work was under way or completed to allow the agency to meet all 37 performance goals by the end of fiscal 2003.

Work now in progress includes assessing the implications of various Social Security reform proposals; evaluating Medicare reform, financing, and operations; assessing states' experiences in providing health insurance coverage for low-income populations; and evaluating federal and state program strategies for financing and overseeing chronic and long-term health care. Our long-term budget simu-

lations and our work under goal 1 on the retirement and health programs show that absent substantive reform of these programs, they will overwhelm the federal budget. Three factors that will shape life in the 21st century are converging: First, as the baby-boom generation retires, labor force growth is projected to continue to fall and, by 2025, is expected to be less than a third of what it is today. Absent a growth in productivity, this decline in labor force growth will lead to slower growth in the economy—and in federal revenues. Second, these retirees are destined to live longer than the generations that preceded them, collecting Social Security and Medicare benefits for longer periods. And, third, rising health care costs will make providing Medicare and Medicaid benefits much more expensive. Our budget simulations indicate that, absent major reforms in underlying entitlements or taxes, deficits will grow to unsustainable levels as spending for Social Security and health care absorb all available revenues in the budget.

Early action to reform federal retirement and health care programs is essential. In our efforts under our third strategic goal, we have work under way that will clarify the various long-term claims that will encumber the nation's resources in the future. This work can contribute to a reassessment of the various tools and approaches used to achieve broad national purposes and outcomes—a reassessment that needs to test existing claims and operations for their relevance and fit. Such a process needs to be national, not just federal in scope, involving the participation of key state, local, private, and nonprofit stakeholders. Ultimately, the Congress and the executive branch will need to work together to reposition government so that it can better address the challenges facing the nation in the 21st century.

## Goal 2

### *Responding to Changing Security Threats and the Challenges of Global Interdependence*

The September 11 terrorist attacks on the United States have led to a fundamental shift in the focus of national security planning and spending priorities. To help the Congress respond to these changes, GAO has undertaken a broad body of work that has shown the need for new approaches and sustained leadership to enhance the nation's security. Our crosscutting work on homeland security issues enabled us to play a critical role in the national debate on how to transform the federal government's organizational structure to better serve the nation.

This work, which has been carried out under GAO's second strategic goal since its adoption in fiscal 2000, prompted GAO to recommend—prior to the attacks in 2001—that the United States establish a single focal point and a national strategy for homeland security issues and complete a comprehensive threat and risk assessment. In fiscal 2002, through fieldwork and analyses that yielded reports, testimonies, and discussions on Capitol Hill and with agencies, multidisciplinary teams from across GAO continued to pursue solutions to the fragmented U.S. approach to countering security threats. We were, for instance, intensively involved in supporting congressional deliberations on proposals for a Department of Homeland Security. In testimony, we framed the key factors to be considered when weighing the options for creating an agency that would merge parts of 22 agencies and programs and pull together some 170,000 federal employees—one of the largest federal government reorganizations ever undertaken. GAO's work showed that the Congress and the administration will need to work together to articulate a clear, overarching mission for the new department; establish a short list of initial critical priorities; ensure effective communication and information systems; balance human capital and budgeting flexibilities with ade-



Source: See Image Sources.

quate transparency and accountability safeguards; and develop a comprehensive transition plan. We underscored the need to also clearly identify the significant start-up costs the creation of a new department will entail.

GAO also assisted the Congress and federal agencies in assessing vulnerabilities to terrorism and in identifying actions to mitigate risks. Among other things, GAO's analyses identified the need for a national critical infrastructure protection strategy, improved analytical and warning capabilities, improved information sharing, and continued actions to resolve pervasive weaknesses in federal information security. GAO contributed to U.S. efforts to combat the smuggling of nuclear materials by providing reports and testimony showing the need for more effective planning among the six federal agencies that play a role in controlling the spread of nuclear materials. As a result, the administration is drafting a governmentwide strategic plan to coordinate these agencies' efforts, and the agencies are upgrading radiation detection equipment in many countries. GAO's reviews of U.S. export control laws helped the Congress better understand how proposed changes to the Export Administration Act will affect the delicate balance between protecting our national security and promoting U.S. export markets. In addition, GAO identified specific actions needed to improve the Defense Department's protection of U.S. forces and facilities and its preparations for chemical and biological defense.

In attempting to adjust its plans, programs, and processes to better focus on the most important threats to national security, while also improving its economy and efficiency, the Defense Department is facing many challenges. GAO provided the Congress and the department with many analyses and recommendations on how to better manage defense programs and achieve efficiencies. For example, our work uncovered the planned disposal of military property that could readily be reused. That work ultimately led to over \$500 million in financial benefits being recorded in fiscal 2002.

Moreover, in response to our body of work on the best commercial practices for acquiring new systems, the department is changing its weapons acquisition practices to elevate the importance of critical design reviews and to make sure that technologies have demonstrated a high level of maturity before being moved forward. Implementing such changes should help the department avoid costly mistakes and delays in designing and procuring new systems. In addition, GAO has helped the department and other agencies to better manage programs for determining whether commercial activities should be performed by the government or the private sector and to assess options for changing the sourcing process. In anticipation of another round of military base closures, GAO provided the Congress and the Defense Department with lessons learned from earlier base closures to help ensure that future processes lead to sound decisions. We also made numerous recommendations to help the department enhance the readiness of existing U.S. forces, correct weaknesses in its logistics support, improve its human capital management, privatize military housing, and better manage the transition to a military force that is lighter, more agile, and better integrated across the services. Our analysis of U.S. air operations in Kosovo, for example, identified many issues that can help to improve future operations.

Recognizing that national security and economic prosperity rest increasingly on global interdependence, GAO also played a significant role in providing the Congress with fact-based analyses to guide decision making on trade negotiations and debt relief. Growing public and congressional interest in the effects of globalization has increased the demand for GAO analyses of ongoing trade negoti-

ations and the impact of existing agreements, such as China's participation in the World Trade Organization. We also played a key role in the debate on approaches for providing debt relief to impoverished nations. Our recent findings on World Bank and International Monetary Fund debt relief to poor countries became the basis for U.S. negotiations with the World Bank and European countries and resulted in a ground-breaking shift in World Bank policies.

Also in fiscal 2002, our work was instrumental in helping the executive branch make progress with the right-sizing of its overseas presence at U.S. embassies and consulates—one of nine program initiatives in the President's Management Agenda. GAO developed an analytical framework for considering security, mission, and cost factors in assessing staff levels at U.S. embassies and consulates and demonstrated how embassy security could be improved by adopting alternative staffing approaches, crucial given the increased risks U.S. personnel now face overseas. The Office of Management and Budget and the State Department's Office of the Inspector General adopted the framework as a means of assessing staff levels worldwide and considering changes. They are also encouraging regional approaches in Europe, as suggested by GAO's work, as a means of reducing the number of U.S. personnel stationed at embassies with security limitations and are developing cost data, as we suggested, to permit cost-based decision making on the overseas presence. In addition, our work has highlighted the State Department's weak performance in staffing embassies in hardship locations and has led the department to commit itself to ensuring that foreign service officers are assigned where they are most needed.

We exceeded four of the goal's five targets for the year, recording \$8.4 billion in financial benefits and 218 other benefits, achieving an 83 percent implementation rate for the recommendations we made 4 years ago, and making 618 new recommendations for improvements to government programs and operations. Although GAO witnesses testified at 38 congressional hearings related to this strategic goal, that number fell short of our target of 49 testimonies during the year. For details please see the second part of this report, Performance Information.

**Strategic Goal 2 Summary**

<b>Measure</b>	<b>Actual</b>	<b>Target</b>	<b>Met?</b>
Financial benefits	\$8.4 billion	\$7.8 billion	Yes
Other benefits	218	178	Yes
Recs implemented	83%	75%	Yes
Recs made	618	460	Yes
Testimonies	38	49	No

Under strategic goal 2 we have 21 performance goals, which call for GAO to undertake work ranging from assessing the effectiveness of efforts to prevent the proliferation of nuclear, biological, and

chemical weapons to analyzing how trade agreements and programs serve U.S. interests. Halfway through our 2-year assessment cycle, GAO's managers reported that enough work was under way or completed to allow the agency to meet all 21 of the performance goals by the end of fiscal 2003. The work now in progress includes an examination of the organizational changes intended to enhance the ability of federal agencies to deter and respond to terrorism in conjunction with state and local governments and other nations. GAO is, for example, examining the roles and responsibilities of the Defense Department in ensuring homeland security.

## Goal 3

### *Transforming the Government's Role to Meet 21<sup>st</sup> Century Challenges*

Last year, the financial collapse of major corporations like Enron and the serious lapses in ethical behavior associated with those failures sparked wide public interest and calls to strengthen accountability, ensure the adequacy of financial reporting and auditing, and comprehensively reassess the government's role and how it does business. The huge losses suffered by shareholders and employees led to severe criticism of virtually all areas of the nation's financial reporting and auditing systems, which are fundamental to maintaining investor confidence in America's capital markets.

Through GAO's reports, testimonies, and work with congressional staff under our third strategic goal, we aided the Congress in reforming the government's role in financial oversight by helping to define the issues and explore various options. The Comptroller General, for example, testified before the Congress that the Enron situation raised a number of systemic issues for congressional consideration, focusing on four overarching areas—corporate governance, the independent audit of financial statements, oversight of the accounting profession, and various accounting and financial reporting issues. These areas are the keystones to protecting the public interest—a breakdown in one or more of the components can have serious consequences and usher in reforms such as those to protect deposit insurance that followed the savings and loan crisis in the 1980s. In considering changes to the system that gave rise to the Enron collapse and other areas of concern, GAO advocated reform based on the fundamental principles of having

- the right incentives for the key parties to do the right thing,
- adequate transparency to provide reasonable assurance that the right thing will be done, and
- full accountability if the right thing is not done.



Source: See Image Sources.

As part of our efforts, GAO convened a forum on various governance, transparency, and accountability issues that was attended by high-level experts in each of these areas.

The Congress adopted a number of GAO's reform proposals in formulating the Sarbanes-Oxley Act of 2002, which established the Public Accounting Oversight Board and dealt with critical auditor independence, corporate responsibility, and financial disclosure matters. As we go forward, GAO will continue to stress accountancy and accountability through major studies, which the act requires, of the relative pros and cons of mandatory audit firm rotation, the impact of the consolidation of public accounting firms, and the role of investment banks in recent public company failures.

So that auditors of federal programs and funds could lead by example, GAO issued significant changes to the independence requirements in the Government Auditing Standards to prohibit these auditors from (1) performing management functions or making management decisions and (2) auditing their own work. Working in consultation with the Comptroller General's Advisory Council on Government Auditing Standards (which comprises 20 experts in financial and performance auditing and reporting), GAO developed a new independence standard that makes it clear that in some circumstances it is not appropriate for auditors to perform both audit and certain nonaudit services for the same client. For example, an auditor should not conduct a recruiting program or make hiring or fir-

ing decisions for the client. To do so would be to sacrifice the independence the auditor needs to assess the client’s operations objectively. If providing both audit and nonaudit services could impair the auditor’s independence, the auditor or the client must choose which type of service will be provided. GAO believes that the new standard will reinforce the public’s confidence in the independence of auditors of government financial statements, programs, and operations. To further strengthen the way these auditors conduct their work, we will issue a major update next year of the Government Auditing Standards, commonly referred to as the Yellow Book.

GAO also took steps to strengthen the government’s own accountancy and accountability by revitalizing the federal financial management reforms called for by the statutory foundation the Congress laid down in the 1990s. One step is particularly notable: over the past year, the Comptroller General, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Director of the Office of Personnel Management—who comprise the principals of the Joint Financial Management Improvement Program—have joined together to advance financial management reforms governmentwide. The principals have

- redefined the success measures for financial management,
- required accelerated financial reporting,
- enhanced the capability and independence of the Federal Accounting Standards Advisory Board,
- established an audit committee for the federal government as a whole and required its major agencies to do so as well, and
- addressed difficult accounting policy issues.

Their continuing leadership is necessary to improve the government’s financial performance—a long-standing GAO objective and also a key objective of the President’s Management Agenda—and to ensure current, reliable, and useful financial information is routinely available for making decisions about government programs and operations.

We exceeded four of the goal’s five targets for the year, recording 462 nonfinancial benefits, achieving an 82 percent implementation rate for the recom-

mendations we made 4 years ago, making 808 new recommendations for improvements to government programs and operations, and presenting 65 congressional testimonies. We also recorded \$5.2 billion in financial benefits for work done under this goal, narrowly missing the target of \$5.3 billion. For details please see the second part of this report, Performance Information.

**Strategic Goal 3 Summary**

Measure	Actual	Target	Met?
Financial benefits	\$5.2 billion	\$5.3 billion	No
Other benefits	462	374	Yes
Recs implemented	82%	75%	Yes
Recs made	808	381	Yes
Testimonies	65	58	Yes

Under strategic goal 3, we have 21 performance goals, which call for GAO to undertake work ranging from analyzing the long-term fiscal position of the federal government to identifying and facilitating the implementation of human capital practices that will improve federal economy, efficiency, and effectiveness. At the halfway mark in our 2-year assessment cycle, GAO’s managers reported that enough work was under way or completed to allow the agency to meet all 21 of the performance goals by the end of fiscal 2003. Work in progress includes an effort—as part of our strategic planning dialogue with the Congress—to explore whether and how to establish a portfolio of national performance indicators for the United States. America’s duly elected leaders make the choices to frame issues and balance priorities. GAO has always played an important role in bringing vital facts and information to bear in support of those decisions. In that role, we are observing substantial and growing activity, throughout the United States and around the world, on measuring national performance. Understanding these efforts is vital to the process of setting direction and measuring progress as a context for our work with the Congress.

Defining key national indicators goes beyond any one sector, beyond corporate governance, beyond nonprofit outcomes, and beyond government performance. Only with this level of information can leaders and the public decide the respective roles of the private, nonprofit, and public sectors in solving the challenges of the 21st century. This includes the looming long-range fiscal challenge of how a

shrinking workforce can sustain a rapidly growing population of benefit recipients and also meet the other demands for federal funds. In February 2003, the Comptroller General—in cooperation with the National Academies—will convene a forum of

national leaders and experts on key national performance indicators for the United States. A summary of the issues discussed and ideas raised will be published to further the public dialogue.

## Goal 4

### *Maximizing the Value of GAO*

At GAO, our people are our most valuable asset. It is only through their combined efforts that we can effectively serve the Congress and our country. After nearly a decade of downsizing, curtailed investments in human capital, and a significantly increased potential for retirements among our senior staff, GAO recognized a need for new human capital strategies. We are striving to be in the vanguard of the federal government's efforts to modernize its human capital strategies. We have begun to use the flexibilities given to us in Public Law 106-303 (sometimes referred to as the GAO Personnel Flexibility Act of 2000) and other actions to realign our workforce; correct skill imbalances; recruit and retain talented employees; and modernize our human capital policies, procedures, and practices. Our commitment to "lead by example" in transforming the way that government does business is leading to many improvements at GAO, as detailed in the goal 4 section of appendix 1.

Our work in improving GAO's human capital strategies has been a major focus of goal 4 since the goal's adoption in the strategic plan issued in fiscal 2000. To help us achieve the goal, we sought legislation that gave us additional tools to realign our workforce with mission needs and overall budgetary constraints; correct skill imbalances; and reduce high-grade, managerial, or supervisory positions without reducing the overall number of GAO employees. Public Law 106-303 gave us the authority to (1) make targeted voluntary early retirement and buyout offers to certain groups of employees; (2) create senior-level positions at compensation levels and benefits consistent with Senior Executive Service positions so that we can address our ongoing need for scientific, technical, and professional career expertise; and (3) give much greater consideration to employees' performance, skills, and knowledge in any reduction-in-force actions. In fiscal 2002, we initiated actions to use the tools pro-



Source: See Image Sources.

vided in the flexibility legislation. We conducted our first voluntary early retirement offer, through which we granted early retirement to 52 employees. The voluntary early retirements helped us to realign rather than downsize GAO and to strengthen our efforts to have the right staff with the right skills in the right locations to better meet the needs of the Congress. We also established and filled seven new senior-level positions and drafted our reduction-in-force regulations, which were posted for comment and are now being revised and readied for issuance, although no such reduction is planned at this time. We have not begun drafting regulations to authorize voluntary buyouts because of the high cost of the required retirement fund contributions, and, at this time, we do not plan to use this authority. Together, the tools provided by P.L. 106-303 have given us much-needed flexibility to deliver on our mission in an efficient, effective, and economical manner, while incorporating adequate safeguards for our employees.

In addition to implementing the special legislative authorities, we have taken a number of other actions to align our workforce to meet our overall mission needs. During fiscal 2002, we improved the linkage between our strategic plan and our budget by implementing a workforce planning process that establishes a more participatory and systematic approach for managers to identify the resources needed to meet our goals and objectives. The process addresses not only the appropriate size and deployment of our workforce, but also its profile—focusing on ensuring that the workforce has the



knowledge, skills, and abilities needed to pursue our strategic goals, both now and in the future. To ensure that that workforce is also diverse, we took several actions to expand and support our recruiting efforts. Overall, in fiscal 2002, we hired more new staff than in any recent year—nearly 430 permanent staff and 140 interns. Most of those hired were entry-level professionals with advanced degrees who will help to support our strategic initiatives and meet our succession-planning needs as more senior staff members retire. In addition, we recruited and hired individuals with expertise in the specialties needed to achieve our strategic goals. We also increased our emphasis on diversity in college recruiting and developed and implemented a strategy for recruiting a broad spectrum of candidates for professional positions. This strategy is designed to ensure that we (1) recruit candidates at schools that matriculate significant numbers of racial minorities, (2) train our recruiters in best practices for recruiting a broad spectrum of candidates, (3) reflect GAO's existing diversity through our recruiters and recruiting materials, and (4) collect and analyze data on the effectiveness of our recruiting efforts, including the extent to which best practices are used. This year, we enlisted key minority executives as recruiters and added outreach efforts at 23 target schools. As a result, we attracted and hired a talented and diverse pool of applicants.

We also took steps to modernize our human capital policies, procedures, and practices during fiscal 2002. We redesigned and implemented a new performance appraisal system for our analysts, specialists, and attorneys to create stronger links with our strategic plan, core values, and desired outcomes. This new system is also linked to a revised pay, promotion, and rewards system that is "state of the art" for a professional services organization. We are working on implementing a broad-banded pay-for-performance system for GAO's Administrative Professional and Support Staff (APSS) similar to the system we have in place for analysts, specialists, and attorneys. A primary goal of our broad-banded pay-for-performance system is to reward staff on the basis of knowledge, skills, and performance as opposed to longevity. It also provides managers

with additional flexibility to assign and use staff in a manner that is more suitable to multitasking and the full utilization of available staff. During the year, we also increased our focus on training by expanding training opportunities for our senior executives and managers, developing a plan to revitalize training for all staff in GAO's core competencies, and providing access to more than 100 commercially developed classes that support GAO's mission. We also have implemented several employee empowerment and benefit programs, including employee surveys, transportation subsidies, career transition services, and a student loan repayment program.

At the halfway point in our 2-year assessment cycle for our performance goals, we were on track to meet 14 of the 19 performance goals under strategic goal 4 by the end of fiscal 2003. As the Performance Information section explains, work on the other five goals is behind schedule, raising the possibility that they may not be met by the deadline, typically because resources were diverted to efforts focused on better serving our congressional clients.

The transformation of GAO's human capital management is a work in progress. Implementing these changes has been and will continue to be challenging for us. To assist our Human Capital Office, which is at the forefront of the transformation efforts, we established a team composed of staff from across GAO to review the office's role and responsibilities, develop a vision for the future, design initiatives for the office to achieve this vision, and identify the key priorities for change or improvement. In fiscal 2003 and 2004, we plan to continue the evolution of agencywide human capital strategies, implement the new broad-banded pay-for-performance system and competency-based performance appraisal system for the APSS segment of our workforce, and develop and implement a core training curriculum focusing on the competencies critical to performing GAO's work. In addition, to help attract new recruits and better describe the modern audit and evaluation entity GAO has become, we will work with the Congress to explore the possibility of changing the agency's name while retaining our well-known acronym of GAO.

# Managing Our Resources

## Resources Used to Achieve Our Fiscal 2002 Performance Goals

GAO's financial statements for fiscal 2002 received an unqualified opinion from an independent auditor. No material weaknesses in internal control were identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 (the Improvement Act) for financial systems. 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. The table below summarizes key data.

### GAO's Financial Highlights: Resource Information

Dollars in millions

	Fiscal 2001	Fiscal 2002
Total budgetary resources	\$392.9	\$442.6
Total outlays	\$387.2	\$427.8
Net cost of operations		
Goal 1: Well-being and financial security of the American people	\$161.1	\$178.3
Goal 2: Changing security threats and challenges of globalization	93.4	110.5
Goal 3: Transforming the federal government's role	139.5	141.0
Goal 4: Maximizing the value of GAO	20.7	25.3
Less reimbursable services not attributable to goals	(1.6)	(2.1)
Total net cost of operations	\$413.1	\$453.0
Actual full-time equivalents	3,110	3,210

Note: 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.



Source: Library of Congress and GAO.

Compared with the statements of large and complex agencies in the executive branch, GAO's statements present a relatively simple picture of a small agency in the legislative branch that focuses most of its financial activity on the execution of its congressionally approved budget and most of its resources devoted to the human capital needed for its mission of supporting the Congress with information and analysis.

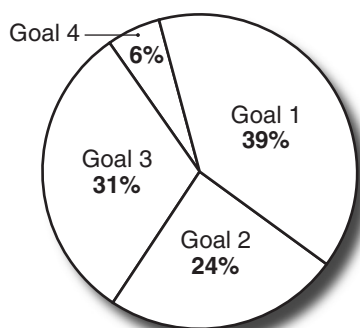
GAO's budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. For fiscal 2002, GAO's total budgetary resources increased by \$49.7 million from fiscal 2001. This increase consists primarily of additional current year appropriations to meet continuing program requirements and \$7.6 million in transfers of budget authority to conduct safety and security efforts to respond to the events of September 11. These transfers included about \$4.4 million for one-time security upgrades and \$3.2 million for recurring safety programs. GAO's total assets were \$126.8 million, consisting mostly of property and equipment (including the headquarters building, land, and improvements and computer equipment and software) and funds with the Treasury. The major change in our assets was in funds with the Treasury, which increased in fiscal 2002 because of differences from the prior year-end in the timing of payments. The total liabilities of \$91.7 million were composed largely of employees' accrued annual leave, amounts owed to other government agencies, accounts payable, and workers' compensation liability. The greatest changes in the

liabilities were made up of salaries and benefits payable and workers' compensation. The decrease in salaries and benefits payable occurred because standard pay periods caused a salary payment to be made closer to the end of fiscal 2002 than in fiscal 2001; consequently, the liability incurred was smaller in fiscal 2002. Workers' compensation liability increased because of a change in the actuarial assumptions used for the liability calculation.

GAO reports net costs by strategic goal to align our net costs with our strategic plan. As the figure indicates, our first goal, under which we organize our work on challenges to the well-being and financial security of the American people, accounted for the largest share of the costs. As the next section on our budget request for fiscal 2003 will show, we expect this goal to continue to represent the largest share of our costs.

### Net Cost of Operations

FY 2002 total \$453 million



Source: GAO.

#### *Audit Advisory Committee*

Assisting the Comptroller General in overseeing the effectiveness of GAO's financial operations is a three-member external Audit Advisory Committee. The committee's report for fiscal 2002 appears after our financial statements and accompanying notes. During fiscal 2002, the members were

- 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;

- Alan B. Levenson, a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission; and
- Katherine D. Ortega, a certified public accountant, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and a former member of the President's Advisory Committee on Small and Minority Business.

At the start of fiscal 2003, two members informed us they were no longer able to serve on the board. New members will be appointed to the committee early in the year.

#### *Limitation on Financial Statements*

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in this report rests with GAO's managers. The statements were prepared to report GAO's financial position and results of operations, consistent with the requirements of the Chief Financial Officers Act as amended (31 U.S.C. 3515). The statements were prepared from GAO's financial records in accordance with the formats prescribed in the Office of Management and Budget's Bulletin 01-09, Form and Content of Agency Financial Statements. These financial statements differ from the financial reports used to monitor and control GAO's budgetary resources; however, both were prepared from the same financial records.

GAO's financial statements should be read with the understanding that, as an agency of a sovereign entity, the U.S. government, GAO cannot liquidate its liabilities (that is, pay its bills) without legislation that provides resources to do so. Although future appropriations to fund these liabilities are likely and anticipated, they are not certain.

### *Resources Needed to Achieve Our Fiscal 2003 Performance Goals*

GAO has requested a budget of \$457.8 million for fiscal 2003 to maintain current operations to support the Congress as outlined in our strategic plan. This funding level—which is 6 percent above our 2002 funding level—would allow us to support our authorized level of 3,269 full-time-equivalent per-

sonnel and includes \$4 million to meet nonrecurring requirements to enhance the safety and security of GAO's staff.

The following table provides an overview of how our budgetary and human capital resources will be allocated among GAO's four strategic goals.

**GAO's Revised Fiscal 2003 Budget**

<b>Strategic goal</b>	<b>Dollars in millions</b>	<b>Full-time equivalent staff</b>
Goal 1: Well-being and financial security of the American people	\$177.6	1,275
Goal 2: Changing security threats and the challenges of globalization	119.5	854
Goal 3: Transforming the federal government's role	141.0	985
Goal 4: Maximizing the value of GAO	19.7	155
<b>Total</b>	<b>\$457.8</b>	<b>3,269</b>

Almost 80 percent of GAO's fiscal 2003 budget will provide for employee compensation and benefits. The next largest portion of our budget—about \$55 million—is for contract services supporting both GAO's mission work and administrative operations, including information technology, training, security, and building maintenance and operations services. About \$13 million will be spent on travel and transportation, critical components to accomplishing GAO's mission and ensuring the quality of our work. The remaining funds will be used for office equipment and space rentals; telephone, videoconference, and data communications services; and other operating expenses, including supplies and materials, printing and reproduction, and furniture and equipment.

During fiscal 2003, we plan to increase our investments in maximizing the productivity of our workforce by continuing to address two of the management challenges we discussed in our performance and accountability report for fiscal 2001: human capital and information technology. On the human capital front, to ensure our ability to attract, retain, and reward high-quality staff, we plan to devote additional resources to our employee benefits and training programs. For example, we will target increased resources to continue initiatives begun in fiscal 2000 to address skill gaps, maximize staff productivity, and increase staff effectiveness; to update our training curriculum to address organizational and technical needs; and to train new staff. In fiscal 2003, we will continue to focus our hiring efforts primarily on recruiting talented entry-level staff.

On the information technology front, we plan to continue initiatives designed to increase our employees' productivity, facilitate knowledge-sharing, maximize the use of technology, and enhance the tools available at the desktop. We will also devote resources to reengineering the information technology systems that support job management processes, such as our engagement tracking system, and continue implementing tools that will ensure a secure network operating environment. Through these initiatives, we expect to complete the establishment of a stable and reliable computer network with standard, routine updates of operating systems and equipment. With the completion of that work, the focus of our management challenge will evolve from information technology to maintaining information security, as will be discussed in the section on management challenges later in this report.

Finally, we will also make the investments necessary to address our third management challenge—enhancing the safety and security of GAO's people, facilities, and other assets.

## Strategies and Challenges

The Government Performance and Results Act directs agencies to articulate not just goals, but also strategies for achieving those goals. As detailed below, GAO's strategies primarily emphasize 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. Our strategies also emphasize the importance of two overarching approaches: (1) working with organizations on crosscutting issues and (2) effectively addressing the challenges to achieving our agency's goals—that is, those internal and external factors that could impair GAO's performance.

### Strategies for Achieving Our Goals and Coordinating with Others

As the audit, evaluation, and investigative arm of the Congress, GAO has a unique role to play. Within the legislative branch, we are the only agency with staff in the field, conducting performance analyses and financial accounting among other congressionally requested activities, and reporting our findings not only to our congressional clients but also to the American public. While we work with the Inspectors General at every federal agency, our engagements differ from theirs in that ours are often more strategic and longer-range in nature, governmentwide in scope, and initiated by requests from the Congress.

Achieving our goals and objectives rests, for the most part, on providing professional, fact-based, balanced, nonpartisan information. We develop and present this information in a number of ways to support the Congress in carrying out its constitutional responsibilities, including the following:

- evaluating federal policies and the performance of agencies;



Source: Library of Congress and GAO.

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

The performance goals listed in Part II of this report lay out the work we plan to complete by the end of fiscal 2003 using the strategies above. In our annual performance plan for fiscal 2004, we will issue our performance goals covering the work we plan to do in fiscal 2004 and 2005.

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

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

Those two types of strategic working relationships allow us to extend our institutional knowledge and experience, and, in turn, to improve our service to the Congress and the American people. Our External Liaison office takes the lead and provides strategic focus for the work with crosscutting organizations, while our research, audit, and evaluation teams lead the work with most of the issue-specific organizations.

#### *Strategic and Annual Work Planning*

Through newly established forums and a number of ongoing advisory boards and panels, we gather information and perspectives for GAO's strategic and annual performance planning efforts. In early 2002, the Comptroller General began to convene various experts from the public and private sectors in a series of forums intended to enhance GAO's understanding of emerging issues and to identify opportunities for action. The first of the forums, held in February, focused on corporate governance, transparency, and accountability issues. The results of this forum, along with other analyses, testimonies, and reports GAO developed, helped inform the Congress as it drafted legislation to strengthen government oversight of the nation's financial markets and protect the public interest by reducing the possibility of future Enron-like situations.

Ongoing advisory boards and panels also support our strategic and annual work planning by alerting us to issues, trends, and lessons learned across the national and international audit community that we should factor into our own work. These groups include the Comptroller General's Advisory Board, whose 40 members from the public and private sectors have broad expertise in areas related to our strategic objectives. The board meets with our leadership annually to share its views on GAO's strategic direction and specific initiatives. Through the National Intergovernmental Audit Forum, chaired

by the Comptroller General, and 10 regional inter-governmental audit forums, GAO consults regularly with federal Inspectors General and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate.

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

- The Advisory Council on Government Auditing Standards, which provides guidance to GAO on promulgating auditing standards. The council played a significant role in the deliberations over a new independence standard for auditors that GAO issued in January 2002 as an amendment to the Government Auditing Standards ([www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm)), commonly referred to as the Yellow Book, which articulates auditors' responsibilities when examining government organizations, programs, activities, or functions and government assistance received by contractors, nonprofits, and other nongovernment organizations. The council's work ensured that the new standard would be generally accepted and feasible.
- The Accountability Advisory Council, made up of experts in the financial management community, which provides advice on GAO's audit of the U.S. government's consolidated financial statements and emerging issues involving financial management and accountability reporting. The council also provided insights that were valuable in framing parts of a question-and-answer guide on the new independence standard mentioned above.
- The Executive Council on Information Management and Technology, whose 21 members are experts from the public and private sectors and representatives of related professional organizations, met in March 2002 to discuss information management issues in the context of homeland security. As a result of these discussions and subsequent discussions with individual members, GAO improved its planning and audit methodologies for several engagements in that area.

- The Comptroller General's Educators' Advisory Panel, composed of deans, professors, and other academics from prominent universities across the United States, advises GAO on recruiting, retaining, and developing staff.

Internationally, GAO participates in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of the national audit offices of 184 countries. During fiscal 2002, GAO led a 10-nation task force in developing a strategic planning framework for INTOSAI, which the Governing Board approved in October 2002. In fiscal year 2003, the task force will expand the framework into a comprehensive strategic plan to guide INTOSAI in the future. The Comptroller General also leads the Global Working Group, in which the heads of GAO's counterparts from 15 countries meet annually to discuss mutual challenges, share experiences, and identify opportunities for collaboration with each other.

#### *Collaborating with Others*

By collaborating with numerous organizations and individuals, we have strengthened professional standards, provided technical assistance, leveraged resources, and developed best practices. In our work with INTOSAI, GAO chairs the accounting standards committee and is an active member of INTOSAI's auditing standards, internal control standards, and public debt committees. As a member of that latter committee, GAO identified and developed partnerships with the World Bank and the United Nations Conference on Trade and Development to design and deliver regionally based training programs for auditors and managers of public debt. We also publish INTOSAI's quarterly *International Journal of Government Auditing* ([www.intosai.org/2\\_IJGA\\_.html](http://www.intosai.org/2_IJGA_.html)) in five languages to further the global understanding of standards, best practices, and technical issues. GAO also chairs the public sector committee of the International Federation of Accountants to help ensure that public sector perspectives are reflected in that committee's accounting standards. Toward the same end, we are collaborating closely with the International Auditing and Assurance Standards Board and the World Bank to develop international auditing standards through an effort led by the National Audit Office of Sweden.

To build capacity in national audit offices around the world, we conduct an international fellows training program each year for mid- to senior-level staff from other countries. In 2002, 14 fellows from Africa, Asia, Latin America, and Eastern Europe spent about 4 months at GAO learning how we are organized to do our work, how we plan work, and what methodologies we use, particularly for performance audits. In addition, GAO provided technical training on designing, planning, and conducting performance audits to over 150 auditors from 10 European countries. We have also begun to implement a memorandum of understanding signed jointly by the Inter-American Development Bank, the INTOSAI Development Initiative, the Organization of Latin American and Caribbean Supreme Audit Institutions, and GAO to help strengthen the capacity of audit institutions in this region.

Domestically, GAO helped the executive branch formulate principles to guide decisions about whether federal employees or the private sector should perform activities for the government that can be purchased as commercially available services. The Comptroller General, responding to a statutory mandate, convened a commercial activities panel that included senior officials from government agencies, federal labor unions, contractor groups, and academia. The panel reviewed government policies and procedures, unanimously adopted a set of principles to guide government sourcing policies, and used those principles to craft a package of specific recommendations designed to improve the way federal agencies make sourcing decisions ([www.gao.gov/a76panel/index.html](http://www.gao.gov/a76panel/index.html)). The Office of Management and Budget is revising its guidance on competitive sourcing to address the panel's recommendations.

Among the other collaborative activities undertaken by GAO's people during fiscal 2002 were the following:

- We collaborated with the Joint Financial Management Improvement Program principals in fostering financial management reform governmentwide, with the Federal Accounting Standards Advisory Board in establishing generally accepted accounting principles for the federal government, and with the President's Council on Integrity and Efficiency (PCIE, a group primarily composed of presidentially

appointed Inspectors General) in publishing and updating a joint GAO/PCIE Financial Audit Manual ([www.gao.gov/special.pubs/FAM/index.html](http://www.gao.gov/special.pubs/FAM/index.html)).

- We worked with the Inspector General of the U.S. Department of Education, the State Auditors of Pennsylvania and Texas, and the Office of the Comptroller in Philadelphia to develop a series of recommendations on improving the quality of data used to measure student achievement, a critical element of accountability under a new federal law, the No Child Left Behind Act. The joint effort earned an award for excellence from PCIE as an achievement “so unusual as to be at the forefront of the [audit] community.”
- Several GAO teams are conferring with the Private Sector Council, a nonprofit, nonpartisan, public service organization committed to helping the federal government improve its efficiency, management, and productivity through the cooperative sharing of knowledge. Council members have assisted us in developing best practices in information technology training. They have also assisted us in the development of a guide for government agencies on innovative practices for planning, delivering, and evaluating training.
- We worked on multiple projects to help assess and enhance security in different aspects of American life. As part of a team led by the State Auditor of Louisiana, for instance, we assisted in developing a guide for evaluating security efforts within the nation’s transportation system. Other team members included the Inspector General of the U.S. Department of Transportation and the State Auditors of Arkansas, Connecticut, New York, and Rhode Island. We also collaborated with auditors in 11 states on a report that examines federal and state efforts to enhance the security of the food supply and worked with 32 federal, state, and local audit organizations on joint information security initiatives, which resulted in, among other things, a Management Planning Guide for Information Security Auditing and a model-training curriculum. Finally, a new relationship we established with the National Academy of Sciences to bring the technical expertise of Academy members to bear on a range of GAO work was vital in our assessment

of the maturity of biometric technologies for use in U.S. border control and the policy implications of using such technologies.

- GAO’s Office of Special Investigations completed a joint investigation with the Social Security Inspector General on potential fraudulent use of deceased individuals’ Social Security numbers in selected entitlement benefit and health care programs. We are continuing to work together on other investigations of the possible misuse of Social Security numbers.

## *Addressing Management Challenges That Could Affect Our Performance*

GAO has three management challenges that may affect our performance. Two of these challenges—human capital and physical security—were identified in our previous performance and accountability report. We have made progress in addressing each of these challenges, but we still have work to do. The third challenge, information security, will replace our previous challenge of information technology. With the establishment of a stable and reliable computer network and institutionalized standard routine updates of network and desktop operating systems and equipment, we will have completed our work on the original management challenge. However, independent reviews of our information security program indicate a need for further improvement.

Given GAO’s role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. We spend about 80 percent of our resources on our people, but without excellent human capital management, we could still run the risk of being unable to meet the expectations of the Congress and the nation. In 1999, after an extended hiring freeze, GAO’s workforce was sparse at the entry level, and we faced succession planning issues as a large number of our senior managers and analysts became eligible to retire. The development and training of our senior executives had been curtailed for funding reasons. And at the same time, more of our staff needed enhanced technical skills if they were to assist the Congress effectively. In all those



respects, GAO was little different from the government as a whole. Since 1999, we have addressed these issues in a variety of ways and are continuing to do so. For example, we

- developed a recruitment program that allowed us to hire 430 permanent staff during fiscal 2002,
- doubled the proportion of our workforce at the entry level,
- revamped and modernized the performance appraisal system for analysts and attorneys,
- implemented a succession-planning program,
- conducted an agencywide assessment and inventory of our workforce's knowledge and skills, and
- completed an organizational realignment and resource reallocation.

Over the next several years, we need to continue to address skill gaps, maximize staff productivity and effectiveness, and reengineer our human capital processes to make them more user-friendly. We plan to address skill gaps by further refining our recruitment and hiring strategies to target gaps identified through our workforce planning efforts, while taking into account the significant percentage of our workforce eligible for retirement. We will reengineer our human capital systems and practices to increase their efficiency and to take full advantage of technology. We will also ensure that our staff have the needed skills and training to function in this reengineered environment. In addition, we are developing a competency-based performance system for our mission support employees. During the 108th Congress, we will work with our appropriations and oversight committees to achieve enactment of legislation to support our continuing efforts to be a leader in federal human capital management and a world-class organization. To build on the human capital flexibilities provided by the Congress in 2000, we will identify opportunities for additional flexibilities that would, among other things, facilitate GAO's continuing efforts to develop a more performance-based compensation system, realign our workforce, and provide greater opportunities for staff to phase into retirement.

In the aftermath of the September 11 terrorist attacks and subsequent anthrax incidents, our ability to provide a safe and secure workplace emerged

as a challenge for our agency. Protecting our people and our assets is critical to our ability to carry out our mission. We devoted additional resources to this area and implemented measures such as reinforcing vehicle and pedestrian entry points, installing an additional x-ray machine, adding more security guards, reinforcing windows, and relocating air sources. We are in the process of researching and designing other projects to better control building access and security around the building. We plan to implement these projects over the next several years.

Ensuring information systems security and disaster recovery systems that allow for continuity of operations is a critical requirement for the agency, particularly in light of the events of September 11 and the anthrax incidents. The risk is that in an emergency our information could be compromised and we would be unable to respond to the needs of the Congress. In light of this risk, and in keeping with our goal of being a model federal agency, we are implementing an information security program consistent with the requirements in the Government Information Security Reform provisions (commonly referred to as "GISRA") enacted in the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001. As discussed in appendix 4, we have made progress through our efforts to

- implement a risk-based, agencywide security program;
- develop essential policies and reporting mechanisms for implementing and maintaining security requirements;
- provide security training and awareness;
- enhance the agency's ability to respond to computer security incidents;
- integrate security into our capital investment control process;
- identify critical assets within our computer architecture;
- ensure the security of services provided by others; and
- develop and implement an enterprise disaster recovery solution.

However, we need to complete certain key actions to be better able to detect intruders in our systems, identify our users, and recover in the event of a disaster. Our current efforts and plans for these areas are as follows:

- We installed software to help us detect intruders on our external servers, but need to complete applying this software to our internal servers. We also plan to add more tools to facilitate the early detection and response to any suspicious activity.
- We began to implement a two-factor secure user authentication to eliminate the threat of penetration of our network resulting from passwords that are easily guessed by intruders. Secure user authentication provides a high degree of certainty that each user who accesses GAO's system is legitimate. We need to complete the implementation of this project and extend it to our remote access and internal wireless links.
- We are refining the disaster recovery plan we developed last year and have begun limited testing exercises to ensure the continued operation of GAO's essential computer systems, should a disaster occur.

At GAO, management challenges are identified by the Comptroller General 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 and track our progress in completing the key efforts for those performance goals quarterly. The performance goals are assessed and updated each year.

GAO's Inspector General reviews management's assessment of the challenges and the agency's progress in addressing them. The memorandum on the Inspector General's findings is reprinted in appendix 2.

## *Mitigating External Factors That Could Affect Our Performance*

Several external factors could affect the achievement of our performance goals, including national and international developments and the resources we receive. 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 the global threat posed by sophisticated terrorist networks, international financial crises, or natural disasters—the mix of work we are asked to undertake may change, diverting our resources from some of our strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways:

- We are alert to possibilities that could shift the Congress's and, therefore, our priorities.
- We continue to identify in our products and meetings with the Congress conditions that could trigger new priorities.
- We quickly redirect our resources, when appropriate, so that we can deal with major changes that do occur.
- We maintain broad-based staff expertise so that we can readily address emerging needs.

As this report goes to press, the uncertainty about our fiscal 2003 funding levels was affecting when we will complete—and, in some cases, begin—initiatives to address our management challenges and other issues. Meeting the fiscal 2003 performance targets in this report and completing the work under way to meet our 2-year performance goals are contingent on receiving the resources we are requesting from the Congress. Once actual funding is known, we may adjust our targets and performance goals to ensure that key congressional priorities are met.

A final external factor is the extent to which GAO can obtain access to certain types of information. Most notably, recent developments have raised con-

cerns about whether records access challenges are likely to increase in the future. First, in December 2002, a district court dismissed a lawsuit GAO filed to obtain information about meetings held with private-sector individuals by the Vice President, in his capacity as chairman of the National Energy Policy Development Group, and the group's members and staff. The court did not address the merits of the case, but rather stated that the Comptroller General lacked standing in the matter. Second, the current administration has shown a tendency to not readily share certain information with GAO and the Congress that both have received in the past. In addition, with concerns about operational security being unusually high at home and abroad, GAO may have more difficulty obtaining information and reporting

on sensitive issues. Historically, our auditing and information gathering has been limited whenever the intelligence community is involved. Nor have we 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 homeland security issues may be hampered, and because some of our reports may be subjected to greater classification reviews than in the past, their public dissemination may be limited. We will work with the Congress to identify both legislative and nonlegislative opportunities for strengthening GAO's access authority as necessary and appropriate.



A black and white photograph of a classical building facade. The image features several tall, fluted columns with ornate capitals. In the foreground, a balcony with a decorative railing is visible. The lighting creates strong shadows, highlighting the architectural details.

*Part II:  
Performance  
Information*

## How We Assess Our Performance

The hierarchy of elements in GAO's strategic plan establishes the structure we use in discussing our performance. At the top of the hierarchy are GAO's four broad strategic goals. Below them are 21 strategic objectives that are more specific and that are in turn, supported by 98 performance goals, which articulate the strategies we will use for achieving the higher-level objectives and goals. At the lowest level of the hierarchy are more than 400 key efforts that describe the work we must do to implement the strategies laid out in the performance goals. This section explains how we assess our agency's performance using this structure and how our annual measures help us gauge whether we are making progress toward our strategic goals.

### GAO's Strategic Planning Elements and Performance Measures



Source: GAO.

If, for instance, we are providing 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 as our first strategic goal calls for us to do, the indicators should show that our people are delivering almost all of their products when they have promised to, that they are being invited to



Source: Library of Congress and GAO.

present testimony before the Congress and are responding to those requests, that they are making a sufficient effort to recommend improvements to the conditions they have uncovered during their fieldwork, that their recommendations are being implemented by the agencies to which they are directed, and, ultimately, that implementation has led to benefits for the American people.

### GAO's Strategic Management Structure

GAO's work is aligned under four strategic goals that are designed to fulfill GAO's mission to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. The first three of the strategic goals focus outwardly on the nature of the information and recommendations GAO must provide—at GAO, these are often referred to as the external goals. The fourth strategic goal is GAO's internal goal. It focuses inwardly on improving GAO itself so that the agency can perform better under the external goals and also serve as a model for others. The four strategic goals are as follows:

- 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.

- Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.
- Help transform the federal government's role and how it does business to meet 21st century challenges.
- Maximize the value of GAO by being a model federal agency and a world-class professional services organization.

Each of the four strategic goals is supported by a set of strategic objectives. Under strategic goal 1, for instance, are eight strategic objectives that call for GAO to address issues that range from health care needs and financing to a secure and effective national physical infrastructure. (The framework diagram on page 18 provides an at-a-glance summary of all the strategic goals and objectives.) All together, GAO has 21 strategic objectives. Units within GAO typically contribute to the achievement of more than one strategic objective, with some working in more than one strategic goal as well. This matrixing allows GAO more flexibility in deploying the agency's resources to meet congressional requests on complex issues.

Every 2 years, as a new Congress convenes on Capitol Hill, we revisit GAO's goals and objectives through an update of the agency's strategic plan. The update includes an "environmental scan" involving staff at headquarters in Washington and in 11 field offices. During the scan, we gather and distill information about trends and issues likely to have a critical effect on the lives of Americans. The information from the scan is combined with information developed in every unit of GAO about the Congress's likely needs, the federal government's most pressing challenges, and the strategies GAO can use to address both in the near and long terms. Key to the update process is active consultation with Members of Congress and their staffs and an open comment period during which the Congress; members of the accountability community at the federal, state, and local levels; members of GAO's own staff; and the public can suggest improvements to the draft plan.

When the final plan is issued, it contains not only GAO's strategic goals and objectives but also GAO's strategies for achieving them, strategies that take the

form of sets of performance goals that support each strategic objective. For instance, the seven performance goals supporting GAO's objective on health care needs and financing call for GAO to, among other things, evaluate Medicare reform, financing, and operations and to assess trends and issues in private health insurance coverage. (To view GAO's current strategic plan, go to [www.gao.gov/sp/html/splan02.html](http://www.gao.gov/sp/html/splan02.html).)

At the conclusion of each 2-year cycle, GAO assesses whether it has met those performance goals and thereby advanced toward the strategic objectives and the broader strategic goals. To make the assessment, GAO looks at whether the key efforts under each performance goal have been accomplished. The performance goal calling for GAO to evaluate Medicare reform, financing, and operations, for instance, has six key efforts, among them analyzing the potential consequences of Medicare structural reforms and assessing the effects of expanding managed care in Medicare. The key efforts, which currently number more than 400 for the agency as a whole, are published as supplements to the strategic plan (to view them, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html)). For a performance goal to have been met, 75 percent of its key efforts must have been accomplished during the 2-year assessment cycle. Unmet goals, unless they are found to be no longer relevant to the Congress's and the nation's needs, are carried forward into the next 2-year cycle so that the work under them will be completed. The next 2-year assessment will occur at the end of fiscal 2003.

## *GAO's Annual Performance Measures*

To provide annual indicators of whether the work GAO is doing under the 2-year performance goals is having a measurable effect toward the achievement of our external strategic goals, GAO attempts to measure the benefits the agency's work creates for the American people. We also track our staff's efforts to provide the kind of information and recommendations that will lead to those benefits. In total, we use seven annual measures to track the progress of the agency as a whole. We also use five of the seven measures to track specific progress on each of our external strategic goals (that is, goals 1,

2, and 3). Together, this array of annual indicators helps GAO's senior executives and managers determine where we are succeeding in our mission and where we need to do more.

In discussing our performance, we usually present the longer-term outcomes first by looking at financial and other benefits and then looking at the indicators that show the flow of newer work as it moves toward the stage at which it may provide benefits. Hence, the measures toward the bottom of the table below provide data on work completed in this fiscal year (the newly planted seeds, as it were), while the measures at the top provide data on the results yielded by work completed in past years (the harvest).

The financial and other benefits for the nation that GAO reports may take several forms. They may reflect, for instance, federal dollars freed up for other purposes because the Congress or federal agencies used GAO's findings or recommendations to make government operations more efficient, less wasteful, or less subject to potential abuse. Or they may reflect instances in which GAO's findings or recommendations led to higher revenues for the government through asset sales or changes in tax laws or user fees. But they may also reflect federal programs that serve Americans better because GAO's findings and recommendations have helped to make them more accountable, responsive, and efficient, a type of benefit that cannot be measured in monetary terms.

Both of the benefits measures may come into play years after our people have completed work and reported our findings and recommendations for improvements to government accountability, operations, or services. For benefits to accrue from our work, federal agencies or the Congress must act on our findings and recommendations, which often takes time. We then must be able to observe and document the results of those actions, which takes additional time. Tabulating the benefits of GAO's work helps demonstrate the value we provide in return for the appropriations we receive and it also helps focus our people on the need to design engagements in ways that have the potential to produce benefits in the future.

Measuring the rate at which past recommendations have been implemented is an interim measure that shows GAO what percentage of recommendations made 4 years ago has been acted on by the agency to which they were directed. Assessing the status of "open" recommendations goes on throughout the year and is the responsibility of the unit that developed the recommendations (to see what recommendations are currently open, go to [www.gao.gov/openrecs.html](http://www.gao.gov/openrecs.html)). The staff close recommendations once implementation is documented or, if implementation is not likely, close them as unimplemented. This assessment process not only paves the way for a later examination of any benefits that implementation may have produced, it also prompts GAO's staff to discuss implementation with the federal agencies involved, alerts GAO's staff to

### GAO's Annual Performance Measures

Measure	An indicator of...
Financial benefits	Has our work provided financial benefits for the American people in the form of reduced costs or higher revenues?
Other benefits	Has our work produced tangible benefits for the American people in the form of better government operations or services?
Past recommendations implemented	Are most of our recommendations being implemented?
New recommendations made	Do we develop ways of improving the conditions we uncover in our work?
New products with recommendations	Do about half of our products provide recommendations for improvements while we continue to meet our congressional clients' requests for purely informational products?
Testimonies	Are we in touch with our congressional clients' information needs and can we fill requests for what typically is high-profile, fast-turnaround, expertly distilled information?
Timeliness	Do we deliver most of our products to our requesters when agreed?



areas where they may need to do more work to get intended results, and reinforces the need to make recommendations that are likely to be implemented because they are clearly stated, feasible, and cost-effective. We measure the implementation rate for recommendations made 4 years ago because prior experience has shown that recommendations often take several years to be put in place. At the same time, if a recommendation has not been implemented within 4 years, it is not likely to be implemented.

Because providing implementable recommendations is an important part of GAO's work for the Congress and helps to improve how the government functions, we encourage staff to design engagements that will allow them not only to describe the conditions they find but also to recommend improvements. GAO therefore counts the number of recommendations made each year and, at the agencywide level, calculates the percentage of products that contain recommendations.

One essential way we fulfill GAO's mission of supporting the Congress is to present information directly to the congressional committees that are conducting oversight or deliberating legislation. We assess our ability to meet that challenge by tracking the number of hearings at which GAO's experts present testimony. This measure serves as an indicator of how responsive GAO's people are to testi-

mony requests, which require fast preparation of brief but information-rich presentations. The measure is also an indicator of how in touch our people are with our congressional clients and how well they have foreseen our clients' information needs. In that requests to testify are often received on short notice, responding to them requires GAO to have a body of relevant work completed or well on the way to completion before hearings are even scheduled. Of course, the Congress itself determines the number of hearings it will conduct in a year and thus controls the number of possible opportunities GAO's people can have to earn places at the witness tables.

GAO's final annual measure—timeliness—is, like the testimonies measure, an indicator of the quality of service GAO provides to its congressional clients. However good GAO's information and recommendations may be, if what we provide reaches those who need it too late to be useful, we have failed in our mission to support the Congress. We assess timeliness by comparing the date on which a GAO product is actually delivered with the delivery date GAO's managers agreed to with their congressional clients.

In the following sections, we discuss what GAO's fiscal 2002 results for these measures say about our performance.

## Agencywide Results

In our 81st year as the Congress's "watchdog," GAO recorded \$37.7 billion in financial benefits for the American people, along with more than 900 actions taken to improve government agencies' management or performance. Those numbers reflect not only the achievements of GAO's people but also those of the Congress and of the many federal agencies that acted on our findings and recommendations to improve the government's accountability, operations, and services. In this section, we present detailed performance information for GAO as a whole. Subsequent sections present detailed performance information on our progress toward each of GAO's strategic goals.

As discussed in the previous section, we use a set of performance measures to assess the results of our work each year. These results are compared with performance targets set 2 years in advance. We set performance targets after assessing what we have been able to achieve, on average, in the past and what congressional and executive branch actions are likely to occur in the future. Once we have tentative agencywide targets, we begin to look at targets for our strategic goals. In a series of meetings, the views of executives in charge of the work to be done and the views of the agency's top leadership are compared and discussed to refine the tentative targets at all levels. Once approved by the Comptroller General, the targets become final and are published in our performance plan.

Actual performance during fiscal 2002 has not affected our planned performance in fiscal 2003 in appreciable ways. In some instances, we have adjusted performance targets for fiscal 2003, but we made those adjustments in response to changing assessments of the external factors that influence our work. The measures and targets tables in this section show where targets have changed since the publication of our fiscal 2003 performance plan. We have also updated our 2-year performance goals in two instances, again based on what we want to achieve in the future: We added a new performance goal on the use of national performance



Source: Library of Congress and GAO.

indicators to gauge progress in meeting societal needs and refocused work under another performance goal on improving the quality of evaluative information (see the goal 3 results section).

After congressional action is complete on our budget request for fiscal 2003, we may revise our annual targets for that year and our 2-year performance goals.

### *Financial Benefits*

For fiscal 2002, we reported \$37.7 billion in financial benefits stemming from the implementation of GAO's findings and recommendations. That total exceeds the target for the year of \$30 billion by nearly 26 percent. Six of GAO's 115 financial accomplishments for the year represented nearly \$21.9 billion (or about 58 percent) of the total:

- safeguarding Medicare from fraud and abuse, \$8.1 billion;
- improving the Department of Housing and Urban Development's budget practices, \$4.9 billion;
- reducing losses from farm loans, \$4.8 billion;
- improving the Defense Department's budgeting for contingencies, \$1.5 billion;
- reducing the cost of cleaning up hazardous waste at the Energy Department's Hanford facility, \$1.5 billion; and

## Agencywide Results

### Annual Measures and Targets

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002		4-year avg. Actual	2003 Target
				Target	Actual		
Financial benefits (billions)	\$20.1	\$23.2	\$26.4	\$30.0	\$37.7 <sup>a</sup>	\$26.9	\$32.5 <sup>b</sup>
Other benefits	607	788	799	770	906	775	800 <sup>b</sup>
Past recommendations implemented	70%	78%	79%	75%	79%	N/A	77%
New recommendations made	940	1,224	1,563	1,200	1,950	1,419	1,250 <sup>b</sup>
New products with recommendations	33%	39%	44%	45%	53%	42%	50%
Testimonies	229	263	151	200	216	215	180 <sup>b</sup>
Timeliness	96%	96%	95%	98%	96%	96%	98%

Note: Agencywide totals may differ from the sum of the amounts on the tables for strategic goals 1, 2, and 3 because when multiple units participate in an engagement, credit may be reflected under more than one of the goals. Also, the fiscal 2003 target for testimonies includes seven testimonies not assigned to goals.

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent. See text under Financial Benefits on page 47 for details.

<sup>b</sup>Four targets published in GAO's performance plan for fiscal 2003 were subsequently revised based on more current information. Two were raised; two were lowered. The original targets were financial benefits, \$35 billion; other benefits, 785; recommendations made, 1,200; and testimonies, 210.

N/A = not applicable

#### 4-Year Averages

Performance measure	1999	2000	2001	2002
Financial benefits (billions)	\$19.5	\$21.0	\$22.4	\$26.9
Other benefits	451	581	683	775
New recommendations made	898	997	1,179	1,419
New products with recommendations	33%	35%	37%	42%
Testimonies	212	233	225	215
Timeliness	88%	94%	95%	96%

Note: 4-year averages can be useful when examining trends over time because they minimize the effect of an atypical result in any given year.

- preserving an inability-to-work test as a qualification for Disability Insurance payments, \$1.1 billion.

When comparing the fiscal 2002 results to previous years' results, it is important to note that we changed our methodology for tabulating financial benefits between fiscal 2001 and 2002 to ensure that criteria were uniformly applied and to use net

present value in calculating benefits. We had expected the changes in methodology to increase financial benefits by about 25 percent and raised our fiscal 2002 and 2003 targets to offset that increase. When we analyzed the actual results for fiscal 2002, we found that the changes in methodology had instead caused about an 11 percent increase. If the financial benefits reported in fiscal 2002 had been tabulated using GAO's old methodology, they would have totaled about \$33.9 billion (or \$3.8 billion less than under the new methodology), up more than 28 percent over the \$26.4 billion in benefits reported in fiscal 2001.

To claim that financial benefits have been achieved, GAO's people must document the connection between the benefits reported and work GAO did. They must also obtain estimates of the benefits' value from independent third parties. In the past, GAO's staff were limited to claiming no more than 2 years' worth of an accomplishment's benefits. They could, however, request waivers of the 2-year limit if they could demonstrate that a particular accomplishment had an effect over a much longer period.

The number of waivers granted was small: 16 over the course of 4 years during which more than 380 accomplishments were documented as having produced financial benefits. But the issues raised by the waivers prompted GAO's executives to study whether the 2-year period was too short to show the real impact of certain types of accomplishments.

The study group found that the accomplishments in question were those that led to reductions in the costs of projects and entitlements over a multiyear period or that increased revenues from asset sales or changes in tax laws or user fees. They recommended that beginning in fiscal 2002, teams be permitted to claim 5 years of benefits accruing from those types of accomplishments and that the use of waivers be eliminated, thus making the application of the criteria uniform. Their recommendations were adopted and in fiscal 2002, 30 of GAO's 115 financial accomplishments (or roughly 26 percent) met the criteria for claiming financial benefits for more than 2 years.

For certain types of accomplishments, however, GAO's executives believed the 5-year period was too long because experience has shown that the impact of some kinds of changes is less sustained than that of those placed under the 5-year limit. Consequently, staff can continue to claim no more than 2 years of benefits from accomplishments generated by changes made to federal agencies' operations. In fiscal 2002, 85 of GAO's financial accomplishments (or nearly 74 percent) fell in this category.

In addition to the elimination of waivers and the establishment of a 5-year accrual period for some kinds of benefits, GAO began in fiscal 2002 to calculate financial benefits in net present value terms. Because \$1 next year is worth less than \$1 today, we utilize present value accounting to convert future and past values into current values for accurate comparison. All of the other requirements for claiming financial benefits have remained the same (see page 74 for more information).

After taking the effects of the changes in methodology into account, it is clear that fiscal 2002 was still an unusual year for GAO. The \$7.5 billion increase in financial benefits between fiscal 2002 and 2001 was more than twice that of prior years. The trend in the 4-year averages data—which are less influ-

enced by unusual highs or lows—shows growth over the longer term to have been more typically in the range of \$2 billion a year. Most of fiscal 2002's increase occurred under goal 1, as will be discussed later. Given the trends in the financial benefits data, the smaller impact of the methodological changes, and the status of new changes federal agencies have begun to make in response to GAO's findings and recommendations, we have lowered our fiscal 2003 target from \$35 billion to \$32.5 billion.

## *Other Benefits*

Many of the benefits that flow to the American people from GAO's work cannot be measured in dollars. These benefits stem from instances in which GAO's findings or recommendations prompted actions that improved government operations and services. In fiscal 2002, GAO recorded 65 instances in which information GAO provided to the Congress resulted in statutory or regulatory changes, 391 instances in which federal agencies improved services to the American public, and 450 instances in which core business processes were improved at agencies or in which governmentwide reforms were advanced. This total of 906 other benefits exceeded our target of 770 for the year by about 18 percent and was also up about 16 percent over the fiscal 2001 total of 779.

Among the key accomplishments were the first important steps toward unifying the homeland security efforts of all levels of government and the private sector, greater accountability in the federal acquisition process, and protecting the taxpayers from faulty analyses of major public works programs. These and other accomplishments are reported in detail in appendix 1.

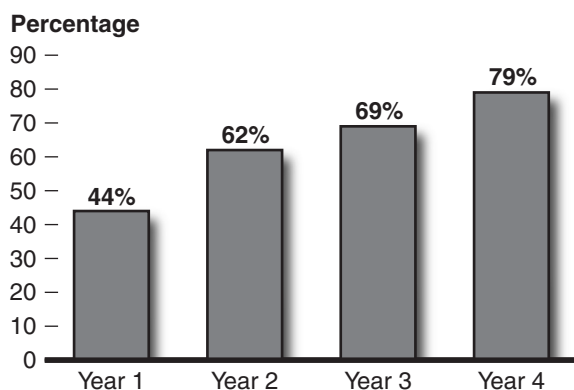
Looking ahead, our assessments of the executive branch's current efforts to implement GAO's recommendations led us to set a target of 800 other benefits for fiscal 2003.

## *Additional Measures*

In addition to the benefits that accrued in fiscal 2002 from GAO's past work, the following results were also achieved:

■ **Past recommendations implemented**—We documented that federal agencies had implemented 79 percent of the recommendations we made in fiscal 1998, results that exceeded the target of 75 percent and were the same as the fiscal 2001 results. As the figure shows, agencies need time to act on recommendations; hence, we assess implementation after 4 years, the point at which past experience has shown that if a recommendation has not been implemented it is not likely to be. The implementation of GAO's recommendations paves the way toward more benefits for the American people in future years. Our target for fiscal 2003 is a 77 percent implementation rate.

### Implementation Rate for Recommendations Made in Fiscal 1998



Source: GAO.

■ **New recommendations made**—We issued 1,950 new recommendations for additional improvements to government accountability, operations, and services during fiscal 2002, exceeding the target of 1,200 by 63 percent and also exceeding the previous year's total of 1,563 by 25 percent. Among the recommendations were those to the Administrator of the Centers for Medicare and Medicaid Services to help safeguard the well-being of nursing home residents, those to the Secretary of State calling for the development of a governmentwide plan to help other countries combat nuclear smuggling, and those to the Director of the Office of Management and Budget calling for agency auditors to pay special attention to agencies' ability to meet cost accounting standards and to report on agencies' compliance with them. Looking ahead, we expect the recent increase in the number of new recommendations to begin tailing off as our staff

completes a series of compliance audits on agencies' information security systems and practices—work that has required specific, and therefore numerous, recommendations to each agency. We therefore set a fiscal 2003 target of 1,250 new recommendations.

■ **New products with recommendations**—In fiscal 2002, 53 percent of GAO's products contained recommendations for improved government accountability, operations, or services, exceeding the target of 45 percent by 8 points and our fiscal 2001 results of 44 percent by 9 points. Because we know that our congressional clients often want purely informational products from us, we have leveled off the target for this measure at 50 percent, letting our staff know they have the leeway to accommodate informational requests while still focusing on the need to provide recommendations for improvements in about half of GAO's products.

■ **Testimonies**—Our witnesses testified at 216 congressional hearings during fiscal 2002, exceeding our target of presenting testimony at 200 hearings by 8 percent and surpassing the fiscal 2001 total of 151 hearings by 43 percent. Meeting the target was challenging given the disruptions anthrax attacks caused on Capitol Hill and the reordering of congressional priorities in the wake of the September 11 attacks. The opportunities to hold hearings were reduced by the former and the topics that needed to be addressed were altered by the latter. Especially quick responses were also necessary. GAO received about 24 hours' notice of a hearing before the panel drafting the House legislation to create the new Department of Homeland Security, for instance. The body of work GAO had already completed and the internal coordination of ongoing engagements provided by GAO's "virtual" National Preparedness Team allowed us to meet that request and a number of others. Looking ahead, we anticipate the Congress will be holding fewer hearings during fiscal 2003 than last year for three reasons. Historical data show that fewer hearings are conducted (1) in the first year of a congressional session as the new Congress organizes, (2) when the majority shifts in the House or the Senate and committee staffs reorganize and reprioritize, and (3) when the House, Senate, and the White

House are all controlled by one political party. All three of these factors will be present during fiscal 2003. We have therefore lowered the year's target for the number of hearings at which we expect our staff to testify to 180.

- **Timeliness**—Although we were able to deliver almost all of our products—96 percent—on time in fiscal 2002 and nudged GAO's performance up a point over fiscal 2001's, we missed the target of 98 percent. A number of factors contributed to the 2-point gap in GAO's performance on this measure, most notably the need to delay work in progress to free up resources to meet new and imperative congressional requests for information. GAO is keeping the target for this measure at 98 percent for fiscal 2003, and we expect it to continue to be a difficult target to hit. While external factors beyond GAO's control may again defeat our attempts to hit the 98 percent level, we believe we can still improve the timeliness of our work in other ways. For instance, we are piloting a set of agency

protocols ([www.gao.gov/cgi-bin/getrpt?rptno=GAO-03-232sp](http://www.gao.gov/cgi-bin/getrpt?rptno=GAO-03-232sp)) that define transparent policies and practices governing GAO's interactions with agencies when we audit or evaluate their operations or programs. We believe that the protocols will help us expedite some of the work with agencies by, for instance, helping them understand and meet deadlines for commenting on drafts of GAO products before they are issued. Greater compliance with the comment period deadlines should allow us to issue more of our products on time. The pilot phase for the agency protocols concludes on June 30, 2003. The protocols will then be modified as appropriate and formally adopted. We may see some improvement in our timeliness statistics in fiscal 2003 as a result of the pilot, but the real effect of the protocols may not be seen until the end of fiscal 2004. We also believe that our continuing investments in human capital and information technology will improve our timeliness.

## Goal 1 Results

*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*

In furthering GAO's mission to support the Congress in carrying out its constitutional responsibilities, GAO's first strategic goal focuses on several aspirations of the American people that were defined by the Founding Fathers: to "establish justice, insure domestic tranquility, . . . promote the general welfare, and secure the blessings of liberty to ourselves and our posterity . . ." The nation's aging and more diverse population, rapid technological change, and the desire of Americans to improve the quality of their lives have major policy and budgetary implications for the federal government. In particular, growing commitments to the elderly will soon exhaust the capacity of a smaller generation of workers to finance the competing needs and wants brought to the federal doorstep.

GAO's first strategic goal, therefore, is to help address the current and emerging challenges that affect the well-being and financial security of the American people by supporting congressional and federal efforts on

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



Source: See Image Sources.

To do our work under these eight objectives during fiscal 2002, we conducted audits, analyses, and evaluations at every major federal agency and developed hundreds of reports and testimonies on the efficacy and soundness of those programs in response to congressional requests and mandates. As the table below shows, the results for the year exceeded four of this strategic goal's five performance targets. This section analyzes those results, discusses the reason for the unmet target, and lays out our targets for fiscal 2003.

### *Financial Benefits*

The financial benefits reported for this goal in fiscal 2002 totaled \$24.1 billion, exceeding the target of \$17 billion by nearly 42 percent and topping fiscal 2001's total of \$8.9 billion by 171 percent. The target was exceeded by such a wide margin primarily because the agencies that implemented particular recommendations from GAO were able to achieve far greater financial benefits than we expected.

Five of GAO's six accomplishments valued at over \$1 billion were achieved by this goal. Those five big-dollar accomplishments, in fact, accounted for 85 percent of the goal's total. Their unanticipated size is responsible for the goal's greatly exceeding its target for financial benefits. These accomplishments, listed on page 46 and reported in detail in the goal 1 section of appendix 1, stemmed from GAO engagements that helped safeguard and best

## Strategic Goal 1 Performance Data

### Annual Measures and Targets

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002		4-year avg. Actual	2003 Target
				Target	Actual		
Financial benefits (billions)	\$13.8	\$14.1	\$8.9	\$17.0	\$24.1 <sup>a</sup>	\$15.2	\$21.2 <sup>b</sup>
Other benefits	140	182	210	218	226	190	208 <sup>b</sup>
Past recommendations implemented	72%	72%	71%	75%	72%	N/A	77%
New recommendations made	350	435	396	359	524	426	363 <sup>b</sup>
Testimonies	123	131	73	93	111	110	85 <sup>b</sup>

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent. See page 47 for details.

<sup>b</sup>This target was revised after GAO issued its performance plan for fiscal 2003. The original targets were financial benefits, \$22.8 billion; other benefits, 218; recommendations made, 359; and testimonies, 93.

N/A = not applicable

### 4-Year Averages

Performance measure	1999	2000	2001	2002
Financial benefits (billions)	\$9.8	\$11.8	\$11.9	\$15.2
Other benefits	129	154	177	190
New recommendations made	278	336	367	426
Testimonies	110	121	114	110

Note: Four-year averages can be useful when examining trends over time because they minimize the effect of an atypical result in any given year.

use tax dollars. The largest of them, valued at \$8.1 billion, arose from our work on curtailing improper Medicare payments to providers. The others stemmed from our work on farm loans, public housing, hazardous waste cleanup, and Social Security Disability Insurance.

Looking ahead, our assessments of the progress agencies are achieving with the implementation of recommendations we made in the past have led us to believe the financial benefits attributable to goal 1 will not be nearly as high in the near future. We have therefore set a target of \$21.2 billion for fiscal 2003, a figure that is still quite high when compared with goal 1's past annual results or with the 4-year average results.

### *Other Benefits*

The other tangible benefits reported for goal 1 in fiscal 2002 included 187 actions taken by federal agencies to improve their services and operations in response to GAO's work and another 39 in which information GAO provided to the Congress resulted in statutory or regulatory changes. This total of 226 other benefits exceeded our target of 218 for the year and was an increase of roughly 8 percent over fiscal 2001's results of 210 other benefits.

Among the key accomplishments in this category were better targeting education funds to high-poverty school districts, making the Job Corps Program more effective, improving the management of nuclear waste cleanup projects, and protecting the taxpayers from faulty analyses of major public works programs. These and other accomplishments are reported in detail in the goal 1 section of appendix 1.

Looking ahead, our assessments of the executive branch's current efforts to implement GAO's recommendations made under this goal led us to set a target of 208 other benefits for fiscal 2003.

### *Additional Measures*

In addition to the benefits that accrued in fiscal 2002 from past work done under this goal, GAO also recorded the following results:



■ **Past recommendations implemented**—We documented that federal agencies had implemented 72 percent of the recommendations we made in fiscal 1998, results that were up 1 point from fiscal 2001's but falling short of the 75 percent target for fiscal 2002. After GAO missed goal 1's target for this measure in fiscal 2001, we examined the reasons and found that recommendations developed by staff who subsequently retired or moved to another GAO unit were less likely to be monitored for implementation than recommendations developed by staff still available to monitor implementation themselves. Hence, it was possible that the implementation rate was higher than the information in GAO's tracking system indicated. We held a session to allow staff from teams with higher implementation rates to discuss practices and solutions with staff from teams with lower implementation rates and stressed the need to conduct thorough follow-up on past recommendations. In revisiting the issue after the target again went unmet in fiscal 2002, we found more specific problems relating to recommendations made to particular agencies. One agency's reorganization had delayed implementation of some of GAO's recommendations, and in a few other instances, agencies had decided not to implement recommendations they considered costly or insignificant. In these latter instances, the senior executive now in charge of our work in those areas has directed staff to ensure that recommendations issued in the future are clearer and doable and to develop a dialogue with the agencies in question to foster implementation of our recommendations. GAO has asked the staff whose work contributes to the goal 1 results to renew their monitoring efforts to help meet a higher target for fiscal 2003: a 77 percent rate of implementation.

■ **New recommendations made**—During fiscal 2002, we issued 524 new recommendations under goal 1 for additional improvements to government accountability, operations, and services, exceeding the target of 359 by 46 percent and the fiscal 2001 total of 396 by 32 percent. Among the recommendations were those to the Secretary of Health and Human Services calling for the development of a sound

strategy for expanding stockpiles of childhood vaccines and those to the Chairman of the Federal Energy Regulatory Commission calling for his agency to develop an action plan for overseeing competitive energy markets. Our target for fiscal 2003 is 363 new recommendations.

■ **Testimonies**—Our witnesses testified at 111 congressional hearings related to this strategic goal, an increase of about 52 percent over fiscal 2001 and exceeding the fiscal 2002 target of 93 testimonies by 19 percent. Much of the increase represents testimonies on homeland security issues. In the months immediately after the September 11 terrorist attacks, we anticipated a surge in requests for testimonies on topics related to our work under goal 2. As the year unfolded, however, we observed that congressional interest was highest on goal 1 issues such as safeguarding transportation and other vital infrastructure and assessing the capabilities of first responders to handle bioterrorism and other threats. We do not believe the pace of hearings will be the same in fiscal 2003 for the three reasons discussed previously. We have therefore set a target of presenting testimony at 85 hearings during fiscal 2003.

■ **Two-year performance goals**—At the close of fiscal 2002, GAO was halfway through the 2-year assessment cycle for the performance goals that provide the strategies we use to achieve our broader strategic goals and objectives. Strategic goal 1 has 37 performance goals, which call for GAO to undertake work that includes evaluating the effectiveness of federal programs to promote and protect the public health and assessing efforts to improve safety and security in all transportation modes. As the table at the start of this section shows, at the halfway mark, GAO's managers reported that enough work was under way or completed to allow us to meet all 37 of the performance goals by the end of fiscal 2003. The key efforts to be undertaken to meet each of the goals are online in the supplements to GAO's strategic plan at [www.gao.gov/sp/html/goal\\_1.html](http://www.gao.gov/sp/html/goal_1.html). The performance goals GAO will begin work on in fiscal 2004 will be published in our annual performance plan after our appropriations for the year are known.

## 2-Year Performance Goals, Fiscal 2002–2003

■ On track to meet

□ Not on track to meet    Strategic objective/performance goal

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

■	Evaluate Medicare reform, financing, and operations
■	Assess trends and issues in private health insurance coverage
■	Assess actions and options for improving the Department of Veterans Affairs' and the Department of Defense's health care services
■	Evaluate the effectiveness of federal programs to promote and protect the public health
■	Evaluate the effectiveness of federal programs to improve the nation's preparedness for the public health and medical consequences of bioterrorism
■	Evaluate federal and state program strategies for financing and overseeing chronic and long-term health care
■	Assess states' experiences in providing health insurance coverage for low-income populations

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

■	Analyze the effectiveness and efficiency of early childhood education and care programs in serving their target populations
■	Assess options for federal programs to effectively address the educational and nutritional needs of elementary and secondary students and their schools <i>This performance goal has been revised to reflect the scope of the work we are doing; it now includes assessing the nutritional needs of students.</i>
■	Determine the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations
■	Identify opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services

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

■	Assess the effectiveness of federal efforts to help adults enter the workforce and to assist low-income workers
■	Analyze the impact of programs designed to maintain a skilled workforce and ensure employers have the workers they need
■	Assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing environment of work
■	Identify ways to improve federal support for people with disabilities

**A secure retirement for older Americans**

■	Assess the implications of various Social Security reform proposals
■	Identify opportunities to foster greater pension coverage, increase personal saving, and ensure adequate and secure retirement income
■	Identify opportunities to improve the ability of federal agencies to administer and protect workers' retirement benefits

**An effective system of justice**

■	Identify ways to improve federal agencies' ability to prevent and respond to terrorist acts and other major crimes
■	Assess the effectiveness of federal programs to control illegal drug use
■	Identify ways to administer the nation's immigration laws to better secure the nation's borders and promote appropriate treatment of legal residents
■	Assess the administrative efficiency and effectiveness of the federal court and prison systems

## 2-Year Performance Goals, Fiscal 2002–2003

■ On track to meet

□ Not on track to meet    Strategic objective/performance goal

### The promotion of viable communities

■	Assess federal economic development assistance and its impact on communities
■	Assess how the federal government can balance the promotion of home ownership with financial risk
■	Assess the effectiveness of federal initiatives to assist small and minority-owned businesses
■	Assess federal efforts to enhance national preparedness and capacity to respond to and recover from natural and man-made disasters
	<i>The wording of this goal has been revised to reflect that the scope of the work we are doing under the goal is broader than assessing just disaster assistance.</i>
■	Assess how well federally supported housing programs meet their objectives and affect the well-being of recipient households and communities

### Responsible stewardship of natural resources and the environment

■	Assess the nation's ability to ensure reliable and environmentally sound energy for current and future generations
■	Assess federal strategies for managing land and water resources in a sustainable fashion for multiple uses
■	Assess federal programs' ability to ensure a plentiful and safe food supply, provide economic security for farmers, and minimize agricultural environmental damage
■	Assess federal pollution prevention and control strategies
■	Assess efforts to reduce the threats posed by hazardous and nuclear wastes

### A secure and effective national physical infrastructure

■	Assess strategies for identifying, evaluating, prioritizing, financing, and implementing integrated solutions to the nation's infrastructure needs
■	Assess the impact of transportation and telecommunications policies and practices on competition and consumers
■	Assess efforts to improve safety and security in all transportation modes
■	Assess the Postal Service's transformation efforts to ensure its viability and accomplish its mission
■	Assess federal efforts to plan for, acquire, manage, maintain, secure, and dispose of the government's real property assets

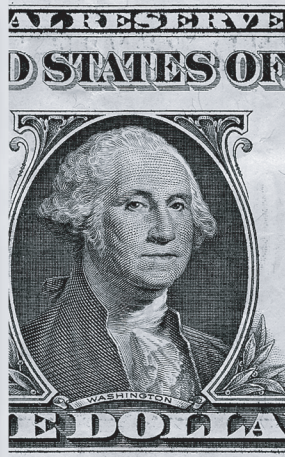
Note: Each performance goal is supported by a set of key efforts. For a performance goal to be considered "met" after 2 years, at least 75 percent of its key efforts must have been accomplished. To view the key efforts for any of the performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

# Goal 1

Goal 1's Cost: \$178.3 Million  
39% of GAO's Total



Goal 1



Goal 2



Goal 3

Goal 4

Well-being and financial security of American people

## Results

\$24.1 billion in financial benefits

- Safeguarding Medicare from fraud and abuse, \$8.1 billion
- Improving HUD's budget practices, \$4.9 billion
- Reducing losses from farm loans, \$4.8 billion
- Reducing costs of hazardous waste cleanup at Hanford, \$1.5 billion
- Additional financial benefits, \$4.8 billion

226 other benefits

- Improving pediatric drug research and labeling
- Simplifying requirements for food stamp eligibility and benefits
- Better targeting education funds to high-poverty school districts
- Protecting taxpayers from faulty analyses of major public works programs
- 222 additional benefits

524 new recommendations made

- Develop strategy for expanding stockpiles of childhood vaccines
- Develop an action plan for overseeing competitive energy markets
- 522 additional improvements recommended

111 testimonies

- Aviation security
- Bioterrorism
- Food safety
- Nursing homes
- 107 additional hearings on topics of national importance

## Goal 2 Results

### *Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence*

As the world grows increasingly interconnected through more open markets and rapidly developing technology, globalization is creating new opportunities for the United States as a whole and for U.S. producers and consumers. At the same time, the United States is facing threats to its security and economy from sources that span terrorism, regional conflicts, and instability sparked by economic conditions, corruption, ethnic hatreds, and nationalism. Consequently, the federal government is working to promote foreign policy goals, sound trade policies, and other strategies to advance the interests of the United States and its allies while also seeking to anticipate and address the increasingly diffuse threats to the nation's security and economy.

Given the importance of those efforts to the nation and the Congress's expressed needs for objective information, analyses, and recommendations on the wide range of highly complex issues involved, the second goal in GAO's strategic plan is focused on helping the Congress and the federal government respond to changing security threats and the challenges of global interdependence. GAO's specific objectives are to support congressional and federal efforts to



Source: See Image Sources.

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

To do our work under these four objectives during fiscal 2002, we conducted field work in Europe, Africa, Asia, Central America, South America, and, of course, North America, to collect the most relevant, direct evidence in response to congressional requests. We then analyzed and distilled the information we collected into hundreds of reports, testimonies, and other types of information services. As the table below shows, the results for the year exceeded four of the strategic goal's five performance targets. This section analyzes those results, discusses the reason for the unmet target, and lays out our targets for fiscal 2003.

## Strategic Goal 2 Performance Data

### Annual Measures and Targets

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002		4-year avg. Actual	2003 Target
				Target	Actual		
Financial benefits (billions)	\$3.0	\$5.5	\$10.5	\$7.8	<b>\$8.4<sup>a</sup></b>	\$6.9	\$6.8 <sup>b</sup>
Other benefits	80	129	188	178	<b>218</b>	154	200 <sup>b</sup>
Past recommendations implemented	65%	84%	81%	75%	<b>83%</b>	N/A	77%
New recommendations made	255	376	618	460	<b>618</b>	467	521 <sup>b</sup>
Testimonies	37	56	34	49	<b>38</b>	41	36 <sup>b</sup>

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent. See page 47 for details.

<sup>b</sup>This target was revised after we issued GAO's performance plan for fiscal 2003. The original targets were financial benefits, \$7.6 billion; other benefits, 192; recommendations made, 485; and testimonies, 55.

N/A = not applicable

### 4-Year Averages

Performance measure	1999	2000	2001	2002
Financial benefits (billions)	\$6.3	\$6.0	\$6.2	\$6.9
Other benefits	65	90	118	154
New recommendations made	266	279	373	467
Testimonies	40	46	43	41

Note: Four-year averages can be useful when examining trends over time because they minimize the effect of an atypical result in any given year.

## 2-Year Performance Goals, Fiscal 2002–2003

■ On track to meet

□ Not on track to meet

Strategic objective/performance goal

### Responding to diffuse threats to national and global security

■	Analyze the effectiveness of the federal government's approach to providing for homeland security
■	Assess U.S. efforts to protect computer and telecommunications systems supporting critical infrastructures in business and government
■	Assess the effectiveness of U.S. programs and international agreements to prevent the proliferation of nuclear, biological, chemical, and conventional weapons and sensitive technologies

### Ensuring military capabilities and readiness

■	Assess the ability of DOD to maintain adequate readiness levels while addressing the force structure changes needed in the 21 <sup>st</sup> century
■	Assess overall human capital management practices to ensure a high-quality total force
■	Identify ways to improve the economy, efficiency, and effectiveness of DOD's support infrastructure and business systems and processes
■	Assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile
■	Analyze and support DOD's efforts to improve budget analyses and performance management
■	Assess whether DOD and the services have developed integrated procedures and systems to operate effectively together on the battlefield
■	Assess the ability of weapon system acquisition programs and processes to achieve desired outcomes

### Advancing and protecting U.S. international interests

■	Analyze the plans, strategies, costs, and results of the U.S. role in conflict interventions
■	Analyze the effectiveness and management of foreign aid programs and the tools used to carry them out
■	Analyze the costs and implications of changing U.S. strategic interests
■	Evaluate the efficiency and accountability of multilateral organizations and the extent to which they are serving U.S. interests
■	Assess the strategies and management practices for U.S. foreign affairs functions and activities

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

■	Analyze how trade agreements and programs serve U.S. interests
■	Improve understanding of the effects of defense industry globalization
■	Assess how the United States can influence improvements in the world financial system
■	Assess the ability of the financial services industry and its regulators to maintain a stable and efficient global financial system
■	Evaluate how prepared financial regulators are to respond to change and innovation
■	Assess the effectiveness of regulatory programs and policies in ensuring access to financial services and deterring fraud and abuse in financial markets

Note: Each performance goal is supported by a set of key efforts. For a performance goal to be considered "met" after 2 years, at least 75 percent of its key efforts must have been accomplished. To view the key efforts for any of the performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

## Financial Benefits

The financial benefits reported for this goal in fiscal 2002 totaled \$8.4 billion, exceeding the target of \$7.8 billion by roughly 8 percent.

Most of the financial benefits were attributable to seven accomplishments valued at \$500 million or more each. These accomplishments, reported in detail in the goal 2 section of appendix 1, typically stemmed from GAO engagements that helped the Department of Defense free billions of dollars for defense priorities by eliminating waste or inefficiency. The largest of them, valued at \$1.5 billion, arose from the reduction of the department's foreign currency exchange funding during a time when the dollar has been strong, a step Defense officials took in response to a GAO recommendation that did not affect readiness but did free funds to meet other needs.

Although we met the fiscal 2002 target, the year's total was down about 20 percent from fiscal 2001's figure. The 2001 total was, in fact, unusually large—\$10.5 billion compared with the 4-year average of \$6.2 billion—because of the benefits documented from one particular accomplishment: GAO's support work for the Base Realignment and Closure Commission, which sought to reconfigure U.S. military facilities to meet 21st century needs. We estimated the value of our work at about \$6 billion, based on the Department of Defense's documentation.

Given the large portion of the U.S. budget that defense spending consumes, we expect our work under this goal to continue to produce economies and efficiencies that yield billions of dollars in financial benefits for the American people each year. Our assessments of the executive branch's current efforts to implement GAO's recommendations, however, have led us to target financial benefits of about \$6.8 billion for fiscal 2003, an amount that is more in line with the trends reflected in the 4-year averages for this goal than with the unusually high 2001 figure.

## Other Benefits

The other tangible benefits reported for goal 2 in fiscal 2002 included 204 actions taken by federal agencies to improve their services and operations in response to GAO's work and another 14 in which information GAO provided to the Congress resulted in statutory or regulatory changes. This total of 218 other benefits exceeded our target of 178 for the year and was an increase of 16 percent over fiscal 2001's total of 188.

Among the key accomplishments in this category were the first important steps toward unifying the homeland security efforts of all levels of government and the private sector, stronger measures to prevent the unapproved export of missile parts, and the more effective delivery of disaster recovery assistance to other nations. These and other accomplishments are reported in detail in the goal 2 section of appendix 1.

Looking ahead, our assessments of the executive branch's current efforts to implement GAO's recommendations made under this goal led us to set a target of 200 other benefits for fiscal 2003.

## Additional Measures

In addition to the benefits that accrued for the American people in fiscal 2002 from past work done under this goal, GAO also recorded the following results:

- **Past recommendations implemented**—We documented that federal agencies had implemented 83 percent of the recommendations we made in fiscal 1998, results that exceeded the target of 75 percent and were up 2 points over the previous year. The target for fiscal 2003 is a 77 percent implementation rate.
- **New recommendations made**—We issued 618 new recommendations for additional improvements to government accountability, operations, and services during fiscal 2002, exceeding the target of 460 and matching the previous year's results. Among the recommendations made were those to the Secretary of State calling for the development of a governmentwide plan to help other countries



combat nuclear smuggling and those to the Secretary of Defense calling for the maturity of critical technologies required for the Joint Strike Fighter to be proven before the Pentagon makes engineering and manufacturing investments in the program. The target for fiscal 2003 is 521 new recommendations.

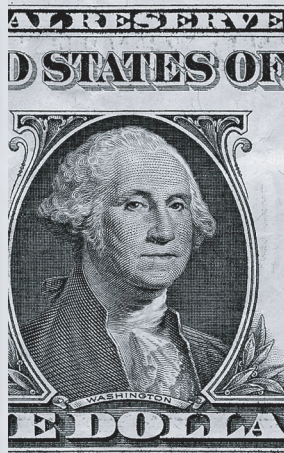
- **Testimonies**—Our witnesses testified at 38 congressional hearings related to this strategic goal, an increase of about 12 percent over fiscal 2001 but falling short of our target of presenting testimony at 49 hearings. We believe this happened, in part, because at the time we set our targets, we did not foresee precisely how the ramifications of the September 11 terrorist attacks would affect the extent and type of our contributions to the Congress under this goal. We anticipated more testimonies on the national security issues embodied in goal 2, but in fact, far more testimonies were requested on homeland security functions such as aviation security and bioterrorism, subjects handled under goal 1, where the number of testimonies rose 52 percent over 2001's figure. Under the circumstances, we do not regard the missed goal 2 target as problematic because it does not represent a lack of success in serving the Congress. In the past, under less extraordinary circumstances, we have been able to make reasonably accurate forecasts of congressional demand for testimonies goal by goal and, thus, to hold ourselves accountable for having resources in place to meet the demand

and for satisfying our clients' requests with timely, objective information. We expect to be reasonably accurate in setting achievable targets in the future but will continue to encourage our managers to shift resources and reprioritize work whenever necessary to meet unforeseen congressional requests rather than to focus exclusively on meeting targets. For fiscal 2003, we have set a target of presenting testimony at 36 hearings related to this goal.

- **Two-year performance goals**—At the close of fiscal 2002, GAO was halfway through the 2-year assessment cycle for the performance goals that provide the strategies we use to achieve our broader strategic goals and objectives. Strategic goal 2 has 21 performance goals, which call for GAO to undertake work ranging from assessing the effectiveness of efforts to prevent the proliferation of nuclear, biological, and chemical weapons to analyzing how trade agreements and programs serve U.S. interests. As the table at the start of this section shows, at the halfway mark, GAO's managers reported that enough work was under way or completed to allow us to meet all 21 of the performance goals by the end of fiscal 2003; the key efforts to be undertaken to meet each of the goals are online in the supplements to GAO's strategic plan at [www.gao.gov/sp/html/goal\\_2.html](http://www.gao.gov/sp/html/goal_2.html). The performance goals GAO will begin work on in fiscal 2004 will be published in our annual performance plan after our appropriations for the year are known.

# Goal 2

Goal 2's Cost: \$110.5 Million  
24% of GAO's Total



Goal 4

Goal 1

Goal 2

Goal 3

Changing security  
threats and challenges  
of globalization

Results

\$8.4 billion in financial benefits

- Reducing DOD's foreign currency exchange funding, \$1.5 billion
- Consolidating and modernizing DOD's computer center activities, \$859 million
- Reducing funding for the V-22 development program, \$763.8 million
- Better management of DOD's satellite capacity, \$702 million
- Additional financial benefits, \$4.6 billion

218 other benefits

- First steps toward unifying homeland security efforts
- Stronger measures to prevent unapproved export of missile parts
- More effective delivery of disaster recovery assistance to other nations
- Improving Peace Corps' safety and security practices
- 214 additional benefits

618 new recommendations made

- Develop governmentwide plan to help other countries combat nuclear smuggling
- Make engineering and manufacturing investments in technologies proven to be mature
- Develop overall investment plan for the National Security Space Strategy
- 615 additional improvements recommended

38 testimonies

- Combating terrorism
- Chemical and biological preparedness
- Conflict diamonds
- Foreign language needs
- 34 additional hearings on topics of national importance

## Goal 3 Results

### *Help Transform the Federal Government's Role and How It Does Business to Meet 21<sup>st</sup> Century Challenges*

The federal government faces an array of challenges, including the national response to terrorism, transition to a knowledge-based economy, rapid technological advances, and changing demographics. These challenges require a fundamental reexamination of the government's priorities, processes, policies, and programs to effectively address shifting public expectations, needs, and fiscal pressures. What has become obvious since September 11 is that the federal government will need to work more effectively with other governments, nongovernmental organizations, and the private sector—both domestically and internationally—to achieve results. Because the public expects demonstrable results from the federal government, government leaders need to increase strategic planning, address management challenges and high-risk issues, use integrated approaches, enhance their agencies' results orientation, and ensure accountability. Examining existing programs and operations for potential cost savings can create much needed fiscal flexibility to address emerging needs. Moreover, addressing today's priorities must be balanced against the long-term fiscal pressures of financing existing programs and operations.

In light of the comprehensive reassessment called for in the current environment, GAO's third strategic goal focuses on the collaborative and integrated elements needed to achieve results, and it highlights the intergovernmental relationships that are necessary to achieve national goals. To ensure that GAO



Source: See Image Sources.

helps transform the role of the government and how it does business to meet 21st century challenges, we have established strategic objectives to

- analyze the implications of the increased role of public and private parties in achieving federal objectives;
- assess the government's human capital and other capacity for serving the public;
- support congressional oversight of the federal government's progress toward being more results-oriented, accountable, and relevant to society's needs; and
- analyze the government's fiscal position and approaches for financing the government.

To do our work under these four objectives during fiscal 2002, we conducted extensive audits, evaluations, and analyses in response to congressional requests and through our own independent "R&D" work. As the table below shows, the results for the year exceeded four of the strategic goal's five performance targets. This section analyzes those results, discusses the reason for the unmet target, and lays out our targets for fiscal 2003.

## Strategic Goal 3 Performance Data

### Annual Measures and Targets

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002		4-year avg. Actual	2003 Target
				Target	Actual		
Financial benefits (billions)	\$4.5	\$5.1	\$7.0	\$5.3	<b>\$5.2<sup>a</sup></b>	\$5.5	\$4.6
Other benefits	414	503	401	374	<b>462</b>	445	392 <sup>b</sup>
Past recommendations implemented	78%	77%	85%	75%	<b>82%</b>	N/A	77%
New recommendations made	335	413	549	381	<b>808</b>	526	366 <sup>b</sup>
Testimonies	100	105	42	58	<b>65</b>	78	52 <sup>b</sup>

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent. See page 47 for details.

<sup>b</sup>This target was revised after we issued GAO's performance plan for fiscal 2003. The original targets were other benefits, 375; recommendations made, 356; and testimonies, 62.

N/A = not applicable

### 4-Year Averages

Performance measure	1999	2000	2001	2002
Financial benefits (billions)	<b>\$5.7</b>	<b>\$5.7</b>	<b>\$5.3</b>	<b>\$5.5</b>
Other benefits	<b>274</b>	<b>361</b>	<b>407</b>	<b>445</b>
New recommendations made	<b>355</b>	<b>383</b>	<b>439</b>	<b>526</b>
Testimonies	<b>79</b>	<b>90</b>	<b>86</b>	<b>78</b>

Note: Four-year averages can be useful when examining trends over time because they minimize the effect of an atypical result in any given year.

## 2-Year Performance Goals, Fiscal 2002–2003

■ On track to meet

□ Not on track to meet    Strategic objective/performance goal

### The implications of the increased role of public and private parties in achieving federal objectives

- Analyze the modern service-delivery system environment and the complexity and interaction of service-delivery mechanisms
- Assess how intergovernmental relationships and the participation of nongovernmental organizations affect the implementation of federal programs and the achievement of national goals
- Assess the effectiveness of regulatory administration and reforms in achieving government objectives

### The government's capacity to better deliver public services

- Identify and facilitate the implementation of human capital practices that will improve federal economy, efficiency, and effectiveness
- Identify ways to improve the financial management infrastructure capacity to provide useful information to manage for results and costs day to day
- Assess the government's capacity to manage information technology to improve performance
- Assess efforts to manage the collection, use, and dissemination of government information in an era of rapidly changing technology
- Assess the effectiveness of the Federal Statistical System in providing relevant, reliable, and timely information that meets federal program needs
- Identify more business-like approaches that can be used by federal agencies in acquiring goods and services

### The federal government's progress toward being more results-oriented, accountable, and relevant to society's needs

- Analyze and support efforts to instill results-oriented management across the government
- Highlight the federal programs and operations at highest risk and the major performance and management challenges confronting agencies
- Identify ways to strengthen accountability for the federal government's assets and operations
- Promote accountability in the federal acquisition process
- Assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property
- Identify ways to improve the quality of evaluative information  
*This goal has been revised to reflect that our work on governmentwide performance indicators has been moved to the new performance goal below.*
- Develop new resources and approaches that can be used in measuring performance and progress on the nation's 21<sup>st</sup> century challenges  
*This performance goal has been added to guide our efforts to help to support public debate and inform decisions on an emerging issue: the use of national performance indicators to gauge progress in meeting societal needs.*

### The government's fiscal position and approaches for financing the government

- Analyze the long-term fiscal position of the federal government
- Analyze the structure and information for budgetary choices and explore alternatives for improvement
- Contribute to congressional deliberations on tax policy
- Support congressional oversight of the Internal Revenue Service's modernization and reform efforts
- Assess the reliability of financial information on the government's fiscal position and financing sources

Note: Each performance goal is supported by a set of key efforts. For a performance goal to be considered "met" after 2 years, at least 75 percent of its key efforts must have been accomplished. To view the key efforts for any of the performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

## *Financial Benefits*

The financial benefits reported for this goal in fiscal 2002 totaled \$5.2 billion, down 26 percent from fiscal 2001's total of \$7 billion. Fiscal 2001's results were atypical; as the 4-year averages show, financial benefits for this goal trend under \$6 billion. Fiscal 2002's annual results were less than 2 percent below fiscal 2002's target. Because the performance target was set at an approximate level and the deviation from that level was slight, missing this target had no effect on GAO's overall performance.

Documenting financial benefits for the American people through the work done under this goal is particularly challenging for GAO's staff. Under goal 1, our people work on issues involving the big entitlement programs like Medicare and Social Security. Under goal 2, our people work on issues involving large-dollar defense programs. But under goal 3, our people typically work on core government business processes and governmentwide management reforms that can yield important nonfinancial benefits but often have little or no potential for measurable financial benefits. Unlike the other two goals, goal 3 had no accomplishments over the \$1 billion mark in fiscal 2002. The goal's top-dollar accomplishment stemmed from our work helping the Department of Defense improve the management of its initiatives to consolidate and modernize its computer centers and to outsource some of the centers' activities and processes, an effort that yielded \$859 million in savings and costs avoided over a 4-year period. This and other accomplishments are reported in detail in the goal 3 section of appendix 1.

Our assessments of the executive branch's current efforts to implement the recommendations we made in our work under this goal led us to target financial benefits of about \$4.6 billion for fiscal 2003.

## *Other Benefits*

The other tangible benefits reported for goal 3 in fiscal 2002 included 450 instances in which agencies' core business processes were improved or governmentwide management reforms were advanced as a result of GAO's work. In addition, there were 12 instances in which information GAO

provided to the Congress resulted in statutory or regulatory changes. This total of 462 other benefits exceeded our target of 374 for the year by almost 24 percent and was an increase of 15 percent over fiscal 2001's total of 401 other benefits.

Among the key accomplishments in this category were greater accountability in the federal acquisition process, improved implementation of the Paperwork Reduction Act, and our development of "data stewardship" strategies to protect the privacy of individuals when researchers use federal databases. These and other accomplishments are reported in detail in the goal 3 section of appendix 1.

Looking ahead, our assessments of the executive branch's current efforts to implement GAO's recommendations made under this goal led us to set a fiscal 2003 target of 392 other benefits from goal 3.

## *Additional Measures*

In addition to the benefits that accrued in fiscal 2002 from past work done under this goal, GAO also recorded the following results:

- **Recommendations implemented**—We documented that federal agencies had implemented 82 percent of the recommendations we made in fiscal 1998, results that exceeded the target of 75 percent but were down 3 points from the previous year. The target for fiscal 2003 is a 77 percent implementation rate.
- **Recommendations made**—We issued 808 new recommendations for additional improvements to government operations and services during fiscal 2002, exceeding the target of 381 by 112 percent and the fiscal 2001 total of 549 by 47 percent. Among the recommendations were those to the Secretary of the Army calling for stronger measures to protect government credit cards from improper use and those to the Director of the Office of Management and Budget calling for agency auditors to pay special attention to agencies' ability to meet cost accounting standards and to report on agencies' compliance with them. The target for fiscal 2003 is 366 new recommendations, significantly lower than the actual results in recent years because a body of

work partly responsible for the high number of recommendations made under goal 3 since fiscal 2000 is coming to a close, namely the compliance work on agencies' computer security measures.

- **Testimonies**—During fiscal 2002, our witnesses testified at 65 congressional hearings related to this strategic goal, exceeding the target of 58 by about 12 percent and the fiscal 2001 total of 42 by almost 55 percent. Among the testimonies presented were those given at a series of field hearings held by the House Subcommittee on Efficiency, Financial Management, and Intergovernmental Relations on the intergovernmental coordination aspects of homeland security. For fiscal 2003, we have set a target of presenting testimony at 52 hearings.
- **Two-year performance goals**—At the close of fiscal 2002, GAO was halfway through the 2-year assessment cycle for the performance goals that

provide the strategies we use to achieve our broader strategic goals and objectives. Strategic goal 3 has 21 performance goals, which call for GAO to undertake work ranging from analyzing the delivery of federal services to assessing the reliability of information on the government's fiscal position and financing sources. As the table at the start of this section shows, at the halfway mark, GAO's managers reported that enough work was under way or completed to allow us to meet all 21 of the performance goals by the end of fiscal 2003; the key efforts to be undertaken to meet each of the goals are online in the supplements to GAO's strategic plan at [www.gao.gov/sp/html/goal\\_3.html](http://www.gao.gov/sp/html/goal_3.html). The performance goals GAO will begin work on in fiscal 2004 will be published in our annual performance plan after our appropriations for the year are known.

# Goal 3

Goal 3's Cost: \$141 Million  
31% of GAO's Total



## Results

### \$5.2 billion in financial benefits

- Improving Defense Department's computer centers' operations, \$859 million
- Improving collection of nontax debts owed to the U.S. government, \$300 million
- Additional financial benefits, \$4 billion

### 462 other benefits

- Greater accountability in the federal acquisition process
- Improved implementation of Paperwork Reduction Act
- Data stewardship strategies to protect individuals' privacy
- Audit testing approach for forensic audits to identify fraud, waste, and abuse
- Improved government debt management
- 457 additional benefits

### 808 new recommendations made

- Better protect government credit cards from misuse
- Audit agencies' compliance with cost accounting standards
- Reassess the requirements for recertifying eligibility for the Earned Income Tax Credit
- 805 additional improvements recommended

### 65 testimonies

- Intergovernmental aspects of homeland security
- Contract management
- Corporate governance and accountability
- Human capital
- Illegal tax schemes and scams
- U.S. government's financial statements
- 59 additional hearings on topics of national importance



## Goal 4 Results

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

The focus of our fourth strategic goal is to make GAO a model organization—one that is driven by our external clients and internal customers, one that exhibits the characteristics of leadership and management excellence, one that is devoted to ensuring quality in its work process and products through continuous improvement, and one that employees and potential employees regard as an excellent place to work. GAO's specific objectives are to

- sharpen GAO's focus on clients' and customers' requirements,
- enhance leadership and promote management excellence,
- leverage GAO's institutional knowledge and experience,
- continuously improve GAO's business and management processes, and
- become the professional services employer of choice.

In fiscal 2002, we undertook a wide array of efforts in pursuing those objectives. To sharpen our focus on our congressional clients' requirements, for example, we completed a 7-month pilot of a Web-based feedback system that allows recipients of our reports and testimonies on the Hill to provide candid reactions through a short e-mail questionnaire. We will expand our use of the feedback system in 2003. We also provided emergency relocation assistance to the House of Representatives when three House office buildings were closed down to be checked for anthrax and decontaminated. In 48 hours, we moved 1,200 of our headquarters staff to temporary locations and modified our phone and computer networks to give Members of Congress and their staffs, a total of 1,800 people, a safe and efficient base from which to conduct the nation's business.



Source: See Image Sources.

Fiscal 2002 was also the greatest hiring year in GAO's recent history. As large numbers of our staff reached retirement age, we hired nearly 430 permanent staff (and 140 interns), mostly as entry-level professionals. To support this effort, we expanded our college recruitment efforts, contracted to use a Web-based application-handling system, and enhanced diversity recruiting to ensure an outstanding, diverse pool of new talent for the agency. We continued revamping and expanding our training programs for both staff and executives and drafted a human capital strategic plan that will be completed and implemented in fiscal 2003. We also began implementing a competency-based performance system to improve the way we assess how our people perform, help them to improve and develop professionally, and reward good performance. The system is in place for our analysts, specialists, and attorneys and will be extended to the professionals and support staff on the administrative side of the agency in the near future.

Also during the year, we replaced our staff's aging desktop workstations with fast, lightweight notebook computers to allow them to work more efficiently in the field; increased the security of our computer network and of our facilities; and introduced an information technology measurement program. We routinely contract for an independent review of our computer operations. The results of earlier reviews allowed us to improve performance in such areas as quality, value, and customer satisfaction. GAO is now well above the average agency in these categories. We plan to expand our

measurement program to include application and asset measurements. For details on these and other accomplishments under this goal, see appendix 1.

The annual measures used to assess our performance under our external strategic goals are not applicable to this internal strategic goal, but 2-year performance goals do apply. At the close of fiscal 2002, GAO was halfway through the 2-year assessment cycle for these goals, which provide the strategies we use to achieve the broader strategic goal and its objectives. Strategic goal 4 has 19 performance goals, which call for GAO to complete initiatives that range from implementing an integrated strategic management approach to providing our people with tools, technology, and a working envi-

ronment that is world-class. As the table below shows, at the halfway mark, GAO's managers reported that enough work was under way or completed to allow us to meet 14 of the performance goals by the end of fiscal 2003. Work on the key efforts supporting 5 other goals is behind schedule, however, raising the possibility that these goals will not be met by the end of the assessment period, typically because resources were diverted to higher priorities. The key efforts to be undertaken to meet each of the goals are online in the supplements to GAO's strategic plan at [www.gao.gov/sp/html/goal\\_4.html](http://www.gao.gov/sp/html/goal_4.html). The performance goals GAO will begin work on in fiscal 2004 will be published in our annual performance plan after our appropriations for the year are known.

## Strategic Goal 4 Performance Data

### 2-Year Performance Goals, Fiscal 2002–2003

■ On track to meet

□ Not on track to meet Strategic objective/performance goal

#### Sharpen GAO's focus on clients' and customers' requirements

■ Continuously update client requirements

□ Develop and implement stakeholder protocols and refine client protocols

*The key efforts for this goal call for us to implement three types of protocols to guide our work with other organizations: congressional, agency, and international. We have refined our congressional protocols and are piloting our agency protocols. But we may not meet this performance goal by the end of fiscal 2003 because work on the international protocols was delayed until all stakeholder comments on the agency protocols were resolved. We expect to pilot the international protocols before the end of fiscal 2003 and to implement them in fiscal 2004.*

■ Identify and refine customer requirements and measures

#### Enhance leadership and promote management excellence

■ Foster an attitude of stewardship to ensure a commitment to GAO's mission and core values

■ Implement an integrated approach to strategic management

■ Continue to provide leadership in strategic human capital management planning and execution

■ Maintain integrity in financial management

■ Use enabling technology to improve GAO's crosscutting business processes

■ Provide a safe and secure workplace

#### Leverage institutional knowledge and experience

■ Expand GAO's use of the World Wide Web as a knowledge tool

## Strategic Goal 4 Performance Data

### 2-Year Performance Goals, Fiscal 2002–2003

■ On track to meet

□ Not on track to meet **Strategic objective/performance goal**

□	<p>Develop a framework to manage the collection, use, distribution, and retention of organizational knowledge</p> <p><i>We have made substantial progress under this performance goal by improving our records management program and have begun work on increasing our knowledge sharing and collaboration efforts. However, we may not meet this performance goal by the end of fiscal 2003 because resources had to be reallocated to finding alternatives to safeguard our mail following the 2001 anthrax incident and to higher-priority work to improve GAO's report production and graphics processes. We anticipate providing additional resources to this performance goal in fiscal 2004.</i></p>
■	<p>Strengthen relationships with other national and international accountability and professional organizations</p>

### Continuously improve our business and management processes

□	<p>Reengineer internal business and administrative processes</p> <p><i>We have made progress under this performance goal by assessing our administrative processes to identify more efficient alternatives and by developing ways to assess internal customers' satisfaction. But we may not meet this performance goal by the end of fiscal 2003 because developing a framework for identifying priorities for process improvement is behind schedule because resources were reallocated to higher-priority efforts on workforce planning. In addition, the mapping of our business processes has progressed more slowly than expected. We plan to devote more resources to this performance goal in fiscal 2004.</i></p>
□	<p>Reengineer GAO's product and service lines</p> <p><i>We have made progress toward this performance goal by benchmarking our products and services against those of high-performing organizations. But we may not meet this performance goal by the end of fiscal 2003 because our efforts to work with our congressional clients to identify appropriate media for communicating results and to establish a systematic process to act on their feedback are more extensive than previously estimated. We plan to work with the new Congress on these matters and hope to accelerate our efforts in fiscal 2003 as we attempt to meet this goal.</i></p>
■	<p>Improve GAO's job management processes</p>

### Become the professional services employer of choice

■	<p>Maintain an environment that is fair, unbiased, family-friendly, and promotes and values opportunity and inclusiveness</p>
□	<p>Improve compensation and performance management systems</p> <p><i>We have made substantial progress toward this performance goal by implementing a new competency-based performance system for major portions of our staff—analysts, specialists, and attorneys—and revising their compensation systems to make them more performance-based. But developing the new performance and compensation systems for the Administrative Professional and Support Staff has been more difficult than anticipated because of the large number and wide variety of positions to be covered. We plan to implement those systems in fiscal 2004.</i></p>
■	<p>Develop and implement a training and professional development strategy targeted toward competencies</p>
■	<p>Provide our people with tools, technology, and a working environment that is world-class</p>

Note: Each performance goal is supported by a set of key efforts. For a performance goal to be considered “met” after 2 years, at least 75 percent of its key efforts must have been accomplished. To view the key efforts for any of the performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

# Goal 4

Goal 4's Cost: \$25.3 Million  
6% of GAO's Total



## Results

### Sharpen focus on clients' and customers' requirements

- Piloted Web-based feedback system for congressional clients
- Provided emergency relocation support
- Developing agency and international protocols

### Enhance leadership and promote management excellence

- Increased security of GAO's facilities and information systems
- Maintained integrity in financial management
- Continued to provide leadership in human capital strategy and management

### Leverage institutional knowledge and experience

- Improved management of agency records
- Piloted knowledge-sharing among GAO units
- Increased capacity through knowledge-sharing and collaboration

### Continuously improve business and management processes

- Improved guidance and tracking for GAO engagements
- Developed "highlights" page to encapsulate information from a GAO report on a single page
- Donated excess computer equipment to schools

### Become professional services employer of choice

- Implemented competency-based performance system for analysts, specialists, and attorneys
- Developed new training process and expanded executive training opportunities
- Continued recruitment focus on diversity

## *Data Quality and Program Evaluation*

This section describes how GAO ensures the completeness and reliability of the performance data in this report and the program evaluations conducted during fiscal 2002 on GAO's operations.

### *Completeness and Reliability*

Our performance data are complete because actual data are reported for every performance measure, and the data are actual results for full fiscal years rather than projections from partial years. Our data are reliable because we followed the verification and validation procedures described in the next section to ensure their quality. Most of the data limitations explained below result in conservative estimates of our actual performance.

### *Procedures to Ensure Data Quality*

In verifying and validating our own performance data, we benefit from lessons learned from our assessments of other agencies' performance information. We adhere to the same professional stan-



Source: Library of Congress and GAO.

dards and internal policies and procedures applied to GAO's audit, evaluation, and research work. And management's routine use of our performance information further helps to ensure its quality and validity. The data are provided to managers for use in decision making, and their feedback on these data helps to ensure that the data are properly recorded. The specific sources of our performance data and procedures for independently verifying and validating the data for each of our performance measures are shown in the table on the next page. We continue to explore ways to strengthen our procedures to ensure data integrity.

Performance measure	Background and context	Data sources
<b>Financial benefits</b>	<p>GAO's findings and recommendations may produce measurable financial benefits for the federal government when the Congress or agencies act on them to reduce annual operating costs or the costs of multiyear projects and entitlements or to increase revenues from asset sales and changes in tax laws or user fees. The funds made available in response to our work may be used to reduce government expenditures or may be reallocated to other areas.</p> <p>To claim that financial benefits have been achieved, GAO's staff must document the cause-and-effect relationship between the benefits reported and work GAO did, and they must obtain estimates of the benefits' monetary value from independent third parties. Prior to fiscal 2002, GAO limited the period over which the benefits from an accomplishment could be accrued to no more than 2 years. Beginning in fiscal 2002, GAO is extending the period to 5 years for types of accomplishments known to have multiyear effects: those associated with longer-term changes embodied in law, program terminations, or sales of government assets yielding multiyear savings. GAO is retaining the 2-year maximum for all other accomplishments. Also in fiscal 2002, GAO began requiring benefits to be calculated in net present value terms.</p> <p>Not every financial benefit from our work can be readily estimated or documented as attributable to GAO's work. As a result, the amount of financial benefits is a conservative estimate.</p>	<p>GAO staff wishing to claim that their work has created financial benefits must file an accomplishment report backed by documentation linking their work to the benefits and providing an independent third party's estimate of the benefits' monetary value. The third party is typically the agency that acted on GAO's work, a congressional committee, or the Congressional Budget Office.</p> <p>Once accomplishment reports are approved, they are compiled by the Quality and Risk Management (QRM) office, which annually tabulates total benefits by goal and agencywide.</p>
<b>Other benefits</b>	<p>The other benefits that GAO reports reflect instances in which (1) information GAO provided to the Congress resulted in statutory or regulatory changes, (2) agencies took actions in response to GAO's findings and recommendations to improve government services and operations, or (3) GAO's work led to improvements in agencies' core business processes or to the advancement of governmentwide management reforms.</p> <p>These benefits cannot be expressed in monetary terms, but to claim that these benefits have occurred, GAO's staff must file accomplishment reports that document the actions that have been taken and the cause-and-effect relationship between the actions and GAO's work.</p>	<p>GAO staff wishing to claim that their work has created other benefits must file an accomplishment report backed by documentation linking their work to the benefits.</p> <p>Once accomplishment reports are approved, they are compiled by QRM, which annually tabulates total benefits by goal and agencywide.</p>

**Verification and validation**

Policies and procedures guide the estimation of financial benefits and their attribution to GAO. Estimates must be based on independent sources and reduced by any identifiable offsetting costs.

All accomplishment reports filed by staff wishing to claim that benefits have resulted from their work are reviewed by a member of staff not involved in the work, by the senior executive in charge of the unit, and by QRM.

Accomplishment reports claiming benefits of \$100 million or more must also be approved by QRM. In fiscal 2002, 93 percent of the dollar value of financial benefits claimed by GAO were approved by QRM.

Accomplishment reports claiming benefits of \$1 billion or more are also reviewed by GAO's Inspector General. Thus, in fiscal 2002, 58 percent of the dollar value of financial benefits claimed by GAO were reviewed by both QRM and the IG.

QRM provides summary data on approved financial benefits to unit managers, who check the data on a regular basis to make sure that approved accomplishments from their staff have been accurately recorded.

**Data limitations**

Estimates are from independent third parties but are based on both objective and subjective data, and as a result, professional judgment is required in reviewing accomplishment reports.

Policies and procedures require accomplishment reports to record the other benefits of our findings and recommendations.

All accomplishment reports filed by staff wishing to claim that benefits have resulted from their work are reviewed by a member of staff not involved in the work, by the senior executive in charge of the unit, and by QRM to ensure the appropriateness of the claimed accomplishment, including attribution to GAO's work.

QRM provides summary data on other benefits to unit managers, who check the data on a regular basis to make sure that approved accomplishments from their staffs have been accurately recorded.

A direct cause-and-effect relationship between GAO's work and benefits it produced cannot always be documented. As a result, the number of other benefits is a conservative measure of our overall contribution toward improving government.

Performance measure	Background and context	Data sources
<b>Recommendations implemented</b>	<p>GAO makes recommendations designed to improve the operations of the federal government. For GAO's work to produce financial or other benefits, the Congress or other federal agencies must implement these recommendations.</p> <p>As part of our audit responsibilities under generally accepted government auditing standards, we follow up on recommendations we have made and report to the Congress on their status.</p> <p>Past experience has shown that it takes time for some recommendations to be implemented. For this reason, this measure is the percentage rate of implementation of recommendations made 4 years prior to a given fiscal year (e.g., the fiscal 2002 implementation rate is the percentage of recommendations made in fiscal 1998 products that were implemented by the end of fiscal 2002). Prior experience has shown that if a recommendation has not been implemented within 4 years, it is not likely to be implemented.</p> <p>This measure assesses action on recommendations made 4 years previously, rather than the results of GAO's activities during the fiscal year in which the data are reported. For example, the percentage of recommendations made in fiscal 1998 that were implemented in the ensuing years is as follows: 44 percent by the end of the first year (fiscal 1999); 62 percent by the end of the second year; 69 percent by the end of the third year; and 79 percent by end of the fourth year.</p>	<p>GAO's document database records recommendations as they are issued.</p> <p>As GAO's staff monitors implementation, they submit updated information to the database.</p> <p>GAO reports annually to the Congress on recommendations that have not been implemented and maintains a publicly available database of open recommendations, which is updated daily.</p>
<b>Recommendations made and percentage of products containing recommendations</b>	<p>GAO makes recommendations that specify actions that can be taken to improve federal operations or programs. We strive for recommendations that are directed at resolving the cause of identified problems; that are addressed to parties who have the authority to act; and that are specific, feasible, and cost-effective.</p> <p>We track the number of recommendations made and the percentage of our written products that contain recommendations. The latter indicator recognizes that the number of recommendations alone is not necessarily a predictor of effect. For example, a product with a single recommendation can help bring about significant financial or other benefits. Together, these two measures provide a picture of the extent to which we are providing decision makers with information that will help improve government.</p>	<p>GAO's document database records recommendations as they are issued.</p>
<b>Testimonies</b>	<p>The Congress may request that GAO testify at hearings on various issues. Testimony is one of our most important forms of communication with the Congress, and the number of hearings at which we testify reflects the importance and value of our institutional knowledge in assisting congressional decision making.</p>	<p>The data on hearings at which GAO testified are compiled in our congressional hearing system.</p>



### Verification and validation

The database of GAO's recommendations is maintained by the staff of an external contractor, who review all GAO products distributed through a formal process to identify all recommendations made and then enter them into a database.

Policies and procedures specify that staff must verify, with sufficient supporting documentation, that an agency's reported actions are adequately being implemented. Our staff may interview agency officials, obtain agency documents, access agency databases, or obtain information from the agency's Office of the Inspector General.

GAO staff update the status of the recommendations on a periodic basis. Recommendations that are reported as implemented are reviewed by the senior executive in charge of the unit and by QRM.

Summary data are provided to the units that issued the recommendations. The units check the data regularly to make sure the recommendations they have reported as implemented have been accurately recorded.

### Data limitations

Affected agencies and GAO sometimes differ on a recommendation's status. For example, agencies may report actions in response to our recommendations, but we may determine that these actions are insufficient or do not adequately implement our recommendations. In these cases, recommendations are recorded as not implemented even though the agency has proposed or taken some actions.

Through a formal process, an external contractor reviews all GAO products distributed, prepares summaries that identify products containing recommendations, and verifies this information through our recommendation follow-up system.

GAO managers are provided with reports on the recommendations being tracked to help ensure that all recommendations have been captured and that each recommendation has been completely and accurately stated.

These measures are a conservative estimate of the extent to which GAO assists the Congress and federal agencies because not all products and services we provide lead to recommendations. For example, the Congress may request information on federal programs that is purely descriptive or analytical and does not lend itself to recommendations.

The units responding to requests for testimony are responsible for entering data in GAO's congressional hearing system.

After a GAO witness has testified at a hearing, GAO's Congressional Relations office verifies that the data in the system are correct and records the hearing as one at which we testified.

Congressional Relations provides weekly status reports to unit managers, who check to make sure the data are complete and accurate.

The measure may be influenced by factors other than the quality of GAO's performance in any specific year. The number of hearings held each year depends on the Congress's agenda, and the number of times GAO is asked to testify may reflect congressional interest in work completed that year, the previous year, or work in progress.

The number of testimonies actually provided by GAO witnesses may be understated because we count statements from multiple GAO witnesses at a hearing as a single testimony.

Performance measure	Background and context	Data sources
<b>Timeliness</b>	<p>The likelihood that GAO's products will be used is enhanced if they are delivered when needed to support congressional and agency decision making. To determine whether GAO's products are timely, we measure the proportion of our products that are issued by the dates agreed to with our clients or, for our R&amp;D work, by the dates agreed to internally.</p> <p>We have made several improvements to clarify our guidance and controls covering our timeliness measure. We clarified the criteria for changing target dates. Initial target dates may be changed because the scope of an assignment is changed by its congressional requesters or, in the case of R&amp;D work, by GAO's senior leadership. Target dates may also change because of external factors beyond GAO's control. In addition, senior executives are responsible for approving any changes and ensuring that the changes are clearly documented.</p>	<p>The data supporting this measure are from GAO's Mission and Assignment Tracking System, which is used to monitor our progress on assignments.</p>
<b>2-year (qualitative)</b>	<p>Assessing the extent to which we achieve 2-year performance goals (referred to in past reports as qualitative goals) helps focus our efforts on issues of critical importance and provides a tool for holding ourselves accountable for the resources the Congress provides. They measure the extent to which we did the work we had planned to do to support the Congress during a 2-year period.</p> <p>For each performance goal, we identify the key efforts needed to achieve it. To determine whether a performance goal has been met, we assess the work completed under the goal's key efforts. In making this assessment, the responsible GAO manager considers the number of reports issued and recommendations made for each key effort.</p> <p>For strategic goals 1 through 3—which focus on supporting the Congress and improving the federal government—a performance goal is met when we provide information or make recommendations on 75 percent of its key efforts. For strategic goal 4—which focuses on improving GAO—a performance goal is met when we complete 75 percent of its key efforts.</p>	<p>The data supporting this measure are from GAO managers' assessments, which are supported by documentation, of work completed under performance goals' key efforts.</p> <p>For performance goals under strategic goals 1 through 3, the supporting documentation comes from our automated Mission and Assignment Tracking System and document database. For performance goals under strategic goal 4, the supporting documentation comes from reports produced by the managers responsible for each key effort.</p>

**Verification and validation**

GAO staff enter the data supporting this measure into our Mission and Assignment Tracking System. Aggregate and assignment-specific timeliness data are given to units monthly. Their staff advise of any anomalies.

When an assignment is completed, data on its target and completion dates are reported to the project manager, who reviews and signs the report to confirm its accuracy.

**Data limitations**

We measure the timeliness of most external products. A small percentage of our products—staff studies and guidance, for example—that are not part of our main product lines are excluded.

We consult with our congressional clients and other outside experts in setting our 2-year performance goals.

The assessment of each 2-year performance goal under strategic goals 1 through 3 is supported by documentation showing, by key effort, the number of reports issued and recommendations made during the assessment period. QRM provides this information to GAO's managers several times a year so that they can check its accuracy.

The assessment of the performance goals under strategic goal 4 is supported by documentation showing the work completed under each key effort.

QRM reviews the assessments and supporting documentation for all performance goals to ensure that criteria are consistently applied and that requirements are met.

Professional judgment must be applied when assessing the work done under each performance goal and when reviewing those assessments.

## Program Evaluation

We use several periodic evaluations to help us assess progress toward our strategic goals and objectives and to update them for our strategic plan, which we revise every 2 years. Much of the value of GAO's work—as reflected in our measures of financial and other benefits—results from agencies' acting on our findings and recommendations. Thus, under strategic goals 1, 2, and 3 (which focus on serving the Congress and improving the federal government), we evaluate actions taken by federal agencies and the Congress in response to our recommendations. The results of these evaluations are conveyed in this performance and accountability report. In addition, we actively monitor the status of open recommendations and report our findings annually to the Congress and the public ([www.gao.gov/openrecs.html](http://www.gao.gov/openrecs.html)). We use the results of that analysis to determine the need for further work in particular areas. If, for example, an agency has not implemented a recommended action that we consider to be still valid and worthwhile, we may decide to pursue further action with agency officials or congressional committees, or we may decide to undertake additional work on the matter.

Another major evaluation we use to assess the extent to which we are achieving our strategic objectives under goals 1, 2, and 3 is our biennial *Performance and Accountability Series: Major Management Challenges and Program Risks* ([www.gao.gov/pas/2003/](http://www.gao.gov/pas/2003/)). This series addresses a range of challenges and opportunities to enhance performance and accountability governmentwide and at federal agencies. The series also includes a companion volume that provides a status report on those major government operations considered “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. The series is a valuable evaluation and planning tool for our own agency because it helps us to identify those areas where continued GAO efforts are needed to maintain the focus on important policy and management issues that the nation faces.

A third major evaluation completed in fiscal 2002 was an independent peer review of GAO's quality control system for financial audits. The report of the independent peer reviewer, KPMG LLP ([www.gao.gov/special.pubs/kpmgqc.pdf](http://www.gao.gov/special.pubs/kpmgqc.pdf)), contains an unqualified opinion, meaning that KPMG found

that the system is designed to meet applicable quality control standards and that we complied with our system in performing financial audits of other organizations during calendar year 2001.

To help us assess our progress toward the strategic objectives under goal 4 (which focuses on improving GAO), we completed a number of studies and evaluations:

- The effectiveness of GAO's risk management approach to designing engagements and developing quality products that meet GAO's core values and professional standards—The assessment showed there has been an increase in the number of draft reports meeting all quality standards the first time they are submitted for official review outside the originating team. This assessment is discussed in appendix 1.
- The status of GAO's information security program—The assessment identified no material weaknesses in our financial applications or general support system. It also showed that while we are making progress in implementing the information security requirements of the Government Information Security Reform provisions, we do have several areas that need improvement. The results of this assessment are discussed in the management challenges section and appendix 4.
- The vulnerability of our building and grounds to security risks—We identified a number of actions to improve the safety and security of our workplace. We implemented several measures, such as reinforcing vehicle and pedestrian entry points, and are researching and designing other projects to improve safety and security. The results of this assessment are discussed in the management challenges section and in appendix 1.
- The efficiency and effectiveness of a number of our core and support businesses processes—We found opportunities to improve, and implemented changes in, several areas, including enhancing GAO's guidance and tools to make it easier for staff to find and follow our policies and procedures; centralizing our process for coordinating work with other agencies, which reduced delays in meeting with agency officials;

and reducing costs for electrical services. These actions and several others are discussed in the goal 4 section of appendix 1.

Finally, GAO's Inspector General evaluates the administration of the agency. The Inspector General's evaluations are useful in ensuring that our

operations are efficient and economical. The evaluations are listed in our discussion of financial systems and controls. While most of the evaluations done on the strategic objectives under goal 4 are not available publicly, they are discussed in other sections of this report as noted above.



A black and white photograph of a classical building facade. The image features several tall, fluted columns with ornate capitals. In the foreground, a balcony with a decorative railing is visible. The lighting creates strong shadows, highlighting the architectural details.

*Part III:  
Financial  
Information*

## *From the Chief Financial Officer*

January 31, 2003

I am pleased to present the U.S. General Accounting Office's financial statements for fiscal 2002. Our financial statements, which are integral to our performance and accountability report, have received an unqualified opinion from our independent auditors for the 16th consecutive year. This clean bill of financial health is particularly important to GAO because of our agency's strong commitment to accounting for the taxpayer dollars we have been provided.

GAO's financial condition is sound. As of September 30, 2002, GAO had enough funds to carry out our mission and had appropriate controls in place to ensure that the agency did not exceed our budget authority.

We continue to look for ways to better serve the Congress, make the best use of our available resources, and strengthen our financial position. GAO's work in fiscal year 2002 led to hundreds of actions to improve the economy, efficiency, and effectiveness of government programs and policies. GAO also provided a superb return on investment. Financial benefits from the agency's work totaled a record \$37.7 billion last year—an \$88 return on every dollar invested in GAO.

We made significant progress in linking our strategic goals with relevant costs. For the second year, our performance and accountability report provides the costs of our operations by strategic goal and clearly explains the results we have achieved. The Association of Government Accountants awarded the Certificate of Excellence in Accountability Reporting to GAO for our performance and accountability report for fiscal 2001, citing its comprehensiveness and readability.

We have introduced an information technology measurement program, and we routinely contract for an independent review of our computer operations. The results of earlier reviews allowed GAO to improve performance in such areas as quality, value, and customer satisfaction. GAO is now well above the average agency in these categories.

In fiscal 2003, guided by our core values of accountability, integrity, and reliability, GAO will continue to strive to become a model federal agency and a world-class professional services organization. Our focus, as it has been since 1921, will be to help the Congress improve government operations for the benefit of the American people.



Sallyanne Harper  
Chief Financial Officer



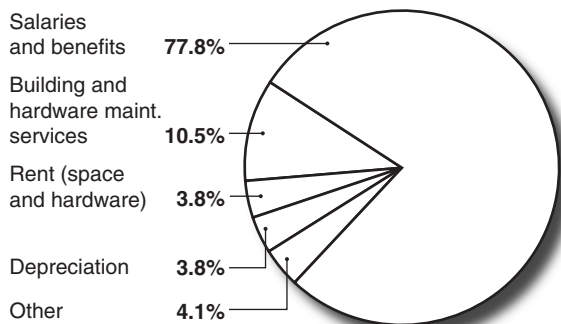
# Overview of Financial Statements

GAO's financial statements and accompanying notes begin on page 88. Our financial statements for the fiscal years ended September 30, 2002 and 2001, were audited by an independent auditor, Cotton & Co., LLP.

Cotton & Co., LLP, rendered an unqualified opinion on GAO's financial statements and an unqualified opinion on the effectiveness of GAO's internal controls over financial reporting and compliance with laws and regulations. The auditor also reported that GAO had substantially complied with the applicable requirements of the Federal Financial Management Improvement Act (the Improvement Act) of 1996 and found no reportable instances of non-compliance 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.

The net cost of operating GAO during fiscal 2002 and 2001 was approximately \$453 million and \$413.1 million, respectively. Expenses for salaries and related benefits accounted for 78 and 80 percent of GAO's net cost of operations in fiscal 2002 and 2001, respectively. The pie chart illustrates how GAO's costs break down by category.

**Uses of Funds by Category**  
FY 2002 – percentage of total net costs



Source: GAO.

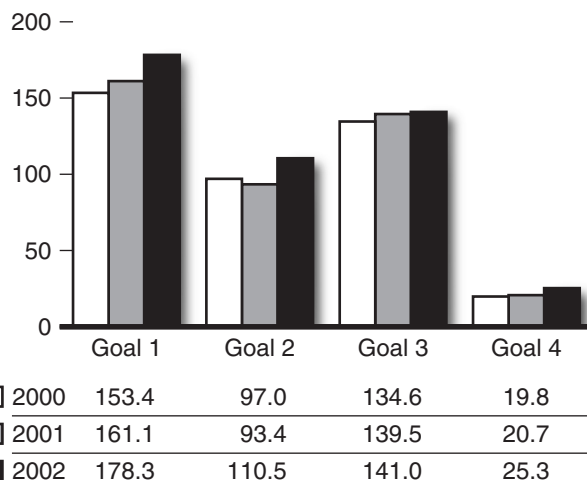


Source: Library of Congress and GAO.

GAO reports net cost of operations according to our four strategic goals, consistent with our strategic plan. Activities in goals 1 and 2 were responsible for most of the increase in GAO's net cost of operations between fiscal 2002 and 2001. In goal 1, work on education, workforce, and income security issues represented most of the goal's increase. In goal 2, work on defense capabilities and management and on international affairs and trade issues constituted most of the goal's increase in costs.

## GAO's Net Costs by Goal

Dollars in millions



Source: GAO.

Note: The net costs are in actual dollars and have not been adjusted for inflation.

## *Financial Systems and Internal Controls*

GAO recognizes 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.

GAO is committed to fulfilling the internal control objectives of 31 U.S.C. 3512, formerly the Federal Managers' Financial Integrity Act (the Integrity Act). Although GAO is 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 GAO's operations are properly recorded and accounted for to enable our agency to prepare reliable financial reports and maintain accountability over our assets.

GAO's management assesses compliance with these controls through a series of comprehensive internal reviews, applying the evaluation criteria in the Office of Management and Budget's guidance for implementing the Integrity Act. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken to correct deficiencies as they are identified.

GAO assessed our internal controls as of September 30, 2002, based on the criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, we believe that as of September 30, 2002, we have effective internal controls in place. Additionally, an independent auditor found that GAO maintained effective internal controls over financial reporting and compliance with laws and regulations. Consistent with GAO's evaluation, the auditor found no material internal control weaknesses.

In addition, GAO is committed to fulfilling the objectives of the Federal Financial Management Improvement Act of 1996 (the Improvement Act). Although not subject to the act, GAO voluntarily

complies with its requirements. We believe that we have implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level as of September 30, 2002. GAO made this assessment based on criteria established under the Improvement Act and guidance issued by the Office of Management and Budget. Also, an auditor reported that GAO had substantially complied with the applicable requirements of the Improvement Act as of September 30, 2002.

GAO's Inspector General conducts audits and investigations and functions as an independent fact-gathering and technical adviser to the Comptroller General. This year, as a result of the Inspector General's efforts, we have improved our policies or internal controls regarding (1) processing of invoices to preclude duplicate payments and for meeting the prompt-payment standards, (2) protection of sensitive personal information, (3) cellular telephone usage, and (4) pay-setting procedures for certain employees. Management agrees with all of the Inspector General's eight open recommendations and plans to take actions that are appropriate to address the underlying issues. There are no unresolved issues.

GAO's Audit Advisory Committee assists the Comptroller General in overseeing the effectiveness of our financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to GAO's financial operations. As of September 30, 2002, the committee consisted of Sheldon S. Cohen (Chairman), Alan B. Levenson, and Katherine D. Ortega, whose relevant experience was described earlier in this report. The committee's report follows our financial statements and accompanying notes.

### *Purpose of Each Financial Statement*

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

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

## Financial Statements

## U.S. General Accounting Office

## Balance Sheet

## As of September 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
<b>Assets</b>		
Intragovernmental		
Funds with the U.S. Treasury and cash (Note 2)	\$62,055	\$56,482
Accounts receivable (Note 1)	387	254
<b>Total Intragovernmental</b>	<u>62,442</u>	<u>56,736</u>
Property and equipment, net (Note 3)	63,888	66,318
Other (Note 1)	486	401
<b>Total Assets</b>	<u><u>\$126,816</u></u>	<u><u>\$123,455</u></u>
<b>Liabilities</b>		
Intragovernmental		
Accounts payable (Note 1)	\$11,044	\$6,711
Employee benefits (Note 5)	1,185	2,683
Workers' compensation (Note 4 and 6)	2,102	2,136
Deferred lease revenue (Note 4 and 7)	2,514	5,532
<b>Total Intragovernmental</b>	<u>16,845</u>	<u>17,062</u>
Accounts payable (Note 1)	13,023	10,258
Salaries and benefits (Note 4 and 5)	10,204	18,378
Accrued annual leave and other (Note 4)	29,357	27,836
Workers' compensation (Note 4 and 6)	12,331	7,954
Capital leases (Note 4 and 8)	9,968	5,360
<b>Total Liabilities</b>	<u>91,728</u>	<u>86,848</u>
<b>Net Position</b>		
Unexpended appropriations	29,925	21,258
Cumulative results of operations	5,163	15,349
<b>Total net position</b>	<u>35,088</u>	<u>36,607</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$126,816</u></u>	<u><u>\$123,455</u></u>

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. General Accounting Office**  
**Statement of Net Cost**  
**For Fiscal Years Ended September 30, 2002 and 2001**

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
<b>Net Costs by Goal</b>		
<b>Goal 1: Well-Being/Financial Security of American People</b>	\$178,455	\$161,142
Less: reimbursable services	(74)	(30)
<b>Net goal costs</b>	<u>178,381</u>	<u>161,112</u>
<b>Goal 2: Changing Security Threats/Challenges of Global Interdependence</b>	110,692	93,456
Less: reimbursable services	(155)	(16)
<b>Net goal costs</b>	<u>110,537</u>	<u>93,440</u>
<b>Goal 3: Transforming the Federal Government's Role</b>	142,204	140,215
Less: reimbursable services	(1,237)	(756)
<b>Net goal costs</b>	<u>140,967</u>	<u>139,459</u>
<b>Goal 4: Maximize the Value of GAO</b>	25,278	20,695
Less: reimbursable services	-	-
<b>Net goal costs</b>	<u>25,278</u>	<u>20,695</u>
<b>Less: reimbursable services not attributable to goals</b>	<u>(2,128)</u>	<u>(1,652)</u>
<b>Net Cost of Operations (Note 9)</b>	<u><u>\$453,035</u></u>	<u><u>\$413,054</u></u>

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. General Accounting Office**  
**Statement of Changes in Net Position**  
**For Fiscal Years Ended September 30, 2002 and 2001**

(Dollars in thousands)

	<b>2002 Cumulative Results of Operations</b>	<b>2002 Unexpended Appropriations</b>	<b>2001 Cumulative Results of Operations</b>	<b>2001 Unexpended Appropriations</b>
<b>Balances, Beginning of Fiscal Year</b>	\$15,349	\$21,258	\$18,761	\$23,515
<b>Budgetary Financing Sources</b>				
Current year appropriations	-	421,844	-	384,020
Transfers of budget authority (Note 10)	-	7,600	-	983
Lapsed budget authority	-	(1,731)	-	(112)
Appropriations used	419,046	(419,046)	387,148	(387,148)
<b>Other Financing Sources</b>				
Intragovernmental transfer of property and equipment	(222)	-	(205)	-
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 5)	21,007	-	19,681	-
Amortization of deferred lease revenue (Note 7)	3,018	-	3,018	-
<b>Total Financing Sources</b>	442,849	8,667	409,642	(2,257)
<b>Net Cost of Operations</b>	(453,035)	-	(413,054)	-
<b>Balances, End of Fiscal Year</b>	\$5,163	\$29,925	\$15,349	\$21,258

The accompanying notes are an integral part of these statements.

## Financial Statements

## U.S. General Accounting Office

## Statement of Budgetary Resources

## For Fiscal Years Ended September 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
<b>Budgetary Resources (Note 10)</b>		
Current year appropriations	\$421,844	\$384,020
Transfers of budget authority	7,600	983
Unobligated appropriations, beginning of fiscal year	7,512	4,264
Reimbursable services (Note 9)	3,594	2,454
Cost sharing and pass-through CPA contract reimbursements	<u>2,093</u>	<u>1,222</u>
<b>Total Budgetary Resources</b>	<u>\$442,643</u>	<u>\$392,943</u>
<b>Status of Budgetary Resources</b>		
Obligations incurred	\$426,714	\$385,319
Unobligated appropriations, end of fiscal year	14,198	7,512
Lapsed budget authority	<u>1,731</u>	<u>112</u>
<b>Total Status of Budgetary Resources</b>	<u>\$442,643</u>	<u>\$392,943</u>
<b>Relationship of Obligations to Outlays</b>		
Obligations incurred	\$426,714	\$385,319
Obligated balance, net - beginning of fiscal year	48,970	50,851
Less: Obligated balance, net - end of fiscal year	<u>(47,856)</u>	<u>(48,970)</u>
<b>Total Outlays</b>	427,828	387,200
Less: Reimbursable services	(3,594)	(2,454)
Cost sharing and pass-through CPA contract reimbursements	<u>(2,093)</u>	<u>(1,222)</u>
<b>Net Outlays</b>	<u>\$422,141</u>	<u>\$383,524</u>
<b>Outlays</b>		
Disbursements	\$427,828	\$387,200
Collections	<u>(5,687)</u>	<u>(3,676)</u>
<b>Net Outlays</b>	<u>\$422,141</u>	<u>\$383,524</u>

The accompanying notes are an integral part of these statements.

**Financial Statements**  
**U.S. General Accounting Office**  
**Statement of Financing**  
**For Fiscal Years Ended September 30, 2002 and 2001**

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$426,714	\$385,319
Less: Reimbursable services (Note 9)	(3,594)	(2,454)
Cost sharing and pass-through CPA contract reimbursements (Note 10)	(2,093)	(1,222)
Net obligations	421,027	381,643
<b>Other Resources</b>		
Intragovernmental transfer of property and equipment	(222)	(205)
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 5)	21,007	19,681
Amortization of deferred lease revenue (Note 7)	3,018	3,018
Net other resources used to finance activities	23,803	22,494
<b>Total resources used to finance activities</b>	444,830	404,137
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net (increase) decrease in unliquidated obligations	(1,980)	5,505
Costs capitalized on the balance sheet	(13,180)	(13,983)
<b>Total resources used to finance items not part of the net cost of operations</b>	(15,160)	(8,478)
<b>Total resources used to finance the net cost of operations</b>	429,670	395,659
<b>Costs That Require Resources in Future Periods</b>		
Expenses to be funded by future appropriations (Note 11)	6,213	298
<b>Costs That Do Not Require Resources</b>		
Depreciation	17,152	17,097
<b>Net Cost of Operations</b>	<u>\$453,035</u>	<u>\$413,054</u>

The accompanying notes are an integral part of these statements.



# Notes to Financial Statements

## Note 1. Summary of Significant Accounting Policies

### Reporting Entity

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the United States General Accounting Office (GAO). GAO, an agency in the legislative branch of the federal government, supports the Congress in carrying out its constitutional responsibilities. GAO carries out its mission primarily by conducting audits, evaluations, analyses, research, and investigations and providing the information from that work to the Congress and the public in a variety of forms. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. This revenue is included on the Statement of Budgetary Resources as "reimbursable services." The financial statements, except for federal employee benefit costs paid by the Office of Personnel Management (OPM) and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as interest on the federal debt, which may in part be attributable to GAO; they also do not include activity related to GAO's trust function described in Note 12.

### Basis of Accounting

GAO's financial statements conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB Standards as GAAP for federal reporting entities. 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.



Source: Library of Congress and GAO.

### Basis of Presentation

GAO's financial statements have been prepared on the accrual basis of accounting in conformity with GAAP 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.

The statements were also prepared in conformity with Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 2002, and thereafter. GAO chose to implement the provisions of this bulletin with the preparation of its fiscal 2001 financial statements.

### Assets

Intragovernmental assets are those assets that arise from transactions with other federal entities. Funds with the U.S. Treasury composed 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 Treasury represent appropriated funds Treasury will provide to pay liabilities and to finance authorized purchase commitments.

*Accounts Receivable*

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

*Property and Equipment*

The GAO building is listed in the National Register of Historic Places and has been designated as and is GAO's only heritage asset. Maintenance of the building has been kept on a current basis. The building is depreciated on a straight-line basis over 25 years.

Property and equipment costing more than \$5,000 are capitalized at cost. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. These assets are depreciated on a straight-line basis over the estimated useful life of the property as follows: building improvements, 10 years; computer equipment, software, and capital lease assets, ranging from 3 to 6 years; leasehold improvements, 5 years; and other equipment, ranging from 5 to 20 years. GAO's property and equipment have no restrictions as to use or convertibility except for the restrictions related to the GAO building's classification as a multi-use heritage asset.

*Other Assets*

The composition of Other Assets as of September 30, 2002 and 2001, is as follows:

<b>Dollars in thousands</b>		
	<b>2002</b>	<b>2001</b>
Operating supplies to be consumed in normal operations (valued at cost)	\$404	\$357
Other receivables	82	44
<b>Total Other Assets</b>	<b>\$486</b>	<b>\$401</b>

*Liabilities*

Liabilities represent amounts that are likely to be paid by GAO as a result of transactions that have already occurred; however, no liability is paid by GAO absent an appropriation.

Intragovernmental liabilities arise from transactions with other federal entities. Detail of GAO's intragovernmental liabilities by agency as of September 30, 2002 and 2001 is as follows:

<b>Dollars in thousands</b>		
<b>Agency</b>	<b>2002</b>	<b>2001</b>
General Services Administration	\$8,793	\$5,553
U.S. Army Corps of Engineers	3,716	5,774
Department of Labor	2,332	2,279
All others	2,004	3,456
<b>Total Intragovernmental Liabilities</b>	<b>\$16,845</b>	<b>\$17,062</b>

*Accounts Payable*

Accounts Payable consist of amounts owed to federal agencies and commercial vendors for goods, services, and other expenses received but not yet paid.

*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 such services. 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 measurement of the service cost requires the use of an actuarial cost method and assumptions, with the factors applied by GAO provided by OPM, the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by GAO 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.

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.

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

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

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

#### *Contingencies*

GAO has certain claims and lawsuits pending against it. Provision has been made in GAO's financial statements for losses considered probable and estimable. These amounts are considered by management to be immaterial. Management believes that losses, if any, from other claims and lawsuits would not be material to the fair presentation of GAO's financial statements.

### *Note 2. Funds with the U.S. Treasury and Cash*

GAO's funds with the U.S. Treasury consist of only appropriated funds. GAO also maintains cash imprest funds for use in daily operations. The status of these funds as of September 30, 2002 and 2001, is as follows:

<b>Dollars in thousands</b>		
	<b>2002</b>	<b>2001</b>
Unobligated balance		
Available	\$7,898	\$2,855
Unavailable	6,300	4,657
Obligated balances not yet disbursed	47,821	48,928
Total Funds with U.S. Treasury	62,019	56,440
Cash	36	42
Total Funds with U.S. Treasury and Cash	<u>\$62,055</u>	<u>\$56,482</u>

### *Note 3. Property and Equipment, Net*

The composition of property and equipment as of September 30, 2002, is as follows:

<b>Dollars in thousands</b>			
<b>Classes of property and equipment</b>	<b>Acquisition value</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Building	\$15,664	\$8,772	\$6,892
Land	1,191	–	1,191
Building improvements	102,459	72,164	30,295
Computer and other equipment, and software	33,441	18,132	15,309
Leasehold improvements	4,847	4,614	233
Assets under capital lease	24,660	14,692	9,968
Total property and equipment	<u>\$182,262</u>	<u>\$118,374</u>	<u>\$63,888</u>

The composition of property and equipment as of September 30, 2001, is as follows:

<b>Dollars in thousands</b>			
<b>Classes of property and equipment</b>	<b>Acquisition value</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
Building	\$15,664	\$8,145	\$7,519
Land	1,191	–	1,191
Building improvements	98,924	64,114	34,810
Computer and other equipment, and software	48,476	31,411	17,065
Leasehold improvements	4,843	4,470	373
Assets under capital lease	15,330	9,970	5,360
Total property and equipment	<u>\$184,428</u>	<u>\$118,110</u>	<u>\$66,318</u>

In fiscal 2002, a full inventory and reconciliation was completed, resulting in an additional \$8,200,000 in retirements of fully depreciated assets.

#### *Note 4. Liabilities Not Covered by Budgetary Resources*

The liabilities on GAO's Balance Sheet as of September 30, 2002 and 2001, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2002 and 2001, is as follows:

<b>Dollars in thousands</b>		
	<b>2002</b>	<b>2001</b>
Intragovernmental liabilities		
Workers' compensation	\$2,102	\$2,136
Deferred lease revenue	2,514	5,532
Total intragovernmental liabilities	4,616	7,668
Salaries and benefits—Comptrollers		
General retirement plan	2,856	2,507
Accrued annual leave and other	29,357	27,836
Workers' compensation	12,331	7,954
Capital leases	9,968	5,360
Total liabilities not covered by budgetary resources	<u>\$59,128</u>	<u>\$51,325</u>

#### *Note 5. Federal Employee Benefits*

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) that became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes contributions to CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay. The pension expense rec-

ognized in GAO's financial statements for fiscal 2002 and 2001 amounted to approximately \$36,979,000 and \$35,544,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of \$11,145,000 and \$11,417,000, respectively. To the extent which employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's financial statements. However, the payments to FICA that GAO makes are recognized as operating expenses. During fiscal 2002 and 2001, these payments amounted to approximately \$12,164,000 and \$10,616,000, respectively. To the extent that GAO employees are covered by the thrift savings component of FERS, GAO payments to the plan are recognized as operating expenses. GAO's costs associated with the thrift savings component of FERS during fiscal 2002 and 2001 amounted to approximately \$6,090,000 and \$5,239,000, respectively.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGHIP) and may continue to participate after retirement. GAO makes contributions through OPM to FEHBP and FEGHIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses and, during fiscal 2002 and 2001, amounted to approximately \$11,704,000 and \$10,351,000, respectively.

Amounts owed to OPM and Treasury as of September 30, 2002 and 2001 are \$1,185,000 and \$2,683,000, respectively for FEHBP, FERS, and CSRS contributions and are shown on the Balance Sheet as an employee benefits liability. Using the cost factors supplied by OPM, GAO has also recognized an expense in its financial statements for the estimated future cost of post retirement health benefits and life insurance for its employees. These costs amounted to approximately \$9,862,000 and \$8,264,000 during fiscal 2002 and 2001, respectively, and are financed by OPM and imputed to GAO.

Comptrollers General and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are paid from current year appropriations and amounted to approxi-

mately \$267,000 and \$260,000 during fiscal 2002 and 2001, respectively. Because GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits of \$2,856,000 as of September 30, 2002, and \$2,507,000 as of September 30, 2001, is included as a component of salary and benefit liabilities on GAO's Balance Sheet. The increase in this liability from prior year is due to revised actuarial assumptions related to the interest rate and the mortality table.

### *Note 6. Workers' Compensation*

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

For 2002, GAO is using estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other federal agencies, but was not available to GAO in past years. This change has resulted in an increase of the FECA liability of \$4,377,000 and is the result of DOL using different actuarial assumptions than those used by GAO in the past. The actuarial assumptions increase the projected benefits liability due to the inclusion of claims incurred but not reported and the extension of the duration covered by the model. This fiscal 2002 charge of \$4,377,000 is reflected as a current year expense distributed to the four goals on the fiscal 2002 Statement of Net Cost.

GAO recorded an estimated liability for claims incurred as of September 30, 2002 and 2001, and expected to be paid in future periods. This estimated liability of \$12,331,000 and \$7,954,000 as of September 30, 2002 and 2001, respectively, is reported on GAO's Balance Sheet. GAO also recorded a liability for amounts paid to claimants by DOL as of September 30, 2002 and 2001, of

\$2,102,000 and \$2,136,000, respectively, but not yet reimbursed to DOL by GAO. The amount owed to DOL is reported on GAO's Balance Sheet as an intragovernmental liability.

### *Note 7. Deferred Lease Revenue*

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

In addition, COE paid for the design, construction, and renovation of one-half of the sixth floor to be occupied by GAO. In 2000, GAO capitalized the renovations at a cost of \$9,053,000. GAO will repay COE for the entire cost of the renovations in the form of rental credits during the first 3 lease years. Rental credits have been recorded as deferred lease revenue and are being amortized over the original 3-year lease term. The current year amortization of deferred lease revenue is reported on the Statement of Changes in Net Position as a financing source and on the Statement of Financing as an other resource.

The net amount of rental revenue due to GAO each year is the total revenue less the amortization of the deferred lease revenue. Fiscal 2002 and 2001 rents received by GAO, net of the deferred lease revenue amortization, amounted to \$1,489,000 and \$1,171,000, respectively. This amount is included in reimbursable services on the Statements of Budgetary Resources and Financing. Net rental revenue for the remaining period of the 10-year lease is as follows:

Dollars in thousands			
Fiscal year ending September 30	Total rental revenue*	Amortization of deferred lease revenue	Rental revenue received or due
2003	\$4,663	\$2,514	\$2,149
2004	4,808	—	4,808
2005	4,866	—	4,866
2006	4,927	—	4,927
2007	4,989	—	4,989
2008-2010	14,495		14,495
Total	<u>\$38,748</u>	<u>\$2,514</u>	<u>\$36,234</u>

\*If option years are exercised.

## Note 8. Leases

### Capital Leases

GAO has entered into capital leases for office and computer equipment under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. When GAO enters into these leases, the present value of the future lease payments is capitalized, net of imputed interest, and recorded as a liability. The acquisition value and accumulated depreciation of GAO's capital leases are shown in Note 3, Property and Equipment, Net. As of September 30, 2002 and 2001, the capital lease liability was \$9,968,000 and \$5,360,000, respectively.

These lease agreements are written as annual fiscal-year contracts that are subject to the availability of funding. The agreements contain a lease-to-purchase provision and there is no penalty for canceling the lease and returning the equipment before the end of the lease term. GAO's leases are short term in nature and no liability exists beyond the years shown in the table below. GAO's estimated future minimum lease payments under the terms of the leases are as follows:

Dollars in thousands	
Fiscal year ending September 30	Total
2003	\$5,520
2004	4,105
2005	1,087
2006	1
Total Estimated Future Lease Payments	10,713
Less: Imputed Interest	(745)
Net Capital Lease Liability	<u>\$9,968</u>

### Operating Leases

GAO leases office space, predominantly for field offices, from GSA and has entered into various other operating leases for office communication and computer equipment. Lease costs for office space and equipment for fiscal 2002 and 2001 amounted to approximately \$6,880,000 and \$7,053,000, respectively. GAO's leases are short term in nature and no liability exists beyond the years shown in the table below. GAO's estimated future minimum lease payments under the terms of the leases are as follows:

Dollars in thousands	
Fiscal year ending September 30	Total
2003	\$7,180
2004	2,801
2005	2,541
2006	986
2007	397
Total Estimated Future Lease Payments	<u>\$13,905</u>

Leased property and equipment must be capitalized if certain criteria are met (see Capital Leases description). Because property and equipment covered under GAO's operating leases do not satisfy these criteria, GAO's operating leases are not reflected on the Balance Sheet. However, annual lease costs under the operating leases are included as components of net cost by goal in the Statement of Net Cost.

## *Note 9. Net Cost of Operations*

Expenses for salaries and related benefits for fiscal 2002 and 2001 amounted to \$351,088,000 and \$326,772,000, respectively, which were about 78 percent and 80 percent, respectively, of GAO's annual net cost of operations. Included in the net cost of operations are federal employee benefit costs paid by OPM and imputed to GAO of \$21,007,000 in fiscal 2002 and \$19,681,000 in fiscal 2001. Also included in the net cost of operations for fiscal 2002 is a \$4,377,000 charge resulting from an increase in the workers' compensation liability. See further discussion in Note 6.

Revenues from reimbursable services are shown as an offset against the full cost of the goal to arrive at its net cost. These revenues consist primarily of billings to federal government corporations for financial statement audits performed by GAO. GAO's pricing policy is to seek reimbursement for actual costs incurred, including overhead costs where allowed by law. Earned revenues that are insignificant or cannot be associated with a major goal are shown in total, the largest component of which is rental revenue from the lease of space in the GAO building. Revenues from reimbursable services for fiscal 2002 and 2001 amounted to \$3,594,000 and \$2,454,000, respectively. Of the revenues from reimbursable services received in fiscal 2002, \$3,399,000 were intragovernmental—substantially from COE, \$1,503,000, and Federal Deposit Insurance Corporation (FDIC), \$1,160,000. Likewise, in fiscal 2001 the amount of revenues from reimbursable services from other governmental entities was \$2,237,000, of which \$1,172,000 was from COE and \$731,000 was from FDIC.

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

## *Note 10. Budgetary Resources*

Budgetary resources made available to GAO include current appropriations, spending authority from budget transfers and reimbursements arising

from both revenues earned by GAO from providing goods and services to other federal entities for a price (reimbursable services), and cost-sharing and pass-through contract arrangements with other federal entities. The major differences between fiscal 2001 appropriations on the Statement of Budgetary Resources (SBR) and the appropriation amount in the President's Budget for 2001 are the imputed pension and the future postretirement health benefits and life insurance costs (see Note 5). OMB directed agencies to include their share of pension costs currently funded by OPM in the total budget authority in the President's Budget, whereas these amounts are properly not included in our SBR. In addition, as the actual fiscal 2002 President's Budget is not yet available, comparison between the SBR and the President's Budget cannot be performed.

Fiscal 2002 budget transfers consisted of budget authority transferred to cover emergency response and preparedness activities, including activities related to the temporary relocation of Members of the House Representatives and their staffs to the GAO building. Fiscal 2001 budget transfers consisted of budget authority transferred in from funds allocated for legislative branch agencies' Year 2000 (Y2K) needs to replace non-Y2K compliant computers remaining in GAO's inventory. Reimbursements from cost-sharing and pass-through contract arrangements consisted primarily of collections from other federal entities for the support of FASAB and collections from other federal entities that utilize standing GAO contracts for obtaining accounting and auditing services from CPA firms. The costs and reimbursements for these activities are not included in the Statement of Net Cost.

## *Note 11. Expenses to Be Funded by Future Appropriations*

Expenses to be funded by future appropriations are reported in the Statement of Financing. These expenses represent the increase in liabilities not covered by budgetary resources, as reported in Note 4.

## Dollars in thousands

Fiscal year ending September 30	2002	2001
Liabilities not covered by budgetary resources, as disclosed in Note 4	\$59,128	\$51,325
Liabilities that are not components of net cost:		
Deferred lease revenue	(2,514)	(5,532)
Capital leases	<u>(9,968)</u>	<u>(5,360)</u>
Current year liabilities not covered by budgetary resources that are components of net cost	46,646	40,433
Prior year liabilities that are not components of current year net costs	<u>(40,433)</u>	<u>(40,135)</u>
Expenses to be funded by future appropriations, as reported on the Statement of Financing	<u>\$6,213</u>	<u>\$298</u>

### *Note 12. Davis-Bacon Act Trust Function*

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments and publishes separate,

audited financial statements for this fund. GAO maintains this fund to pay claims relating to violations of the Davis-Bacon Act and Contract Work Hours and Safety Standards Act. Under these acts, DOL investigates violation allegations to determine if federal contractors owe additional wages to covered employees. If DOL concludes that a violation has occurred, GAO collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the employee. GAO is accountable to the Congress and to the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration totaled approximately \$4,692,000 as of September 30, 2002. These assets are not the assets of GAO nor the federal government and are held for distribution to appropriate claimants. During fiscal 2002, receipts and disbursements in the trust amounted to \$664,000 and \$572,000, respectively. Because the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial statements.



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# *Audit Advisory Committee's Report*

The Audit Advisory Committee assists the Comptroller General in overseeing the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the committee meets with agency management and its internal and external auditors to review and discuss GAO's external financial audit coverage, the effectiveness of GAO's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact GAO's financial statements. GAO's external auditors are responsible for expressing an opinion on the conformity of GAO's audited financial statements with U.S. generally accepted accounting principles. The committee reviews the findings of the internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the committee reviews GAO's draft performance and accountability report, including its financial statements, and provides comments to management, which has primary responsibility for the report. The committee met three times during fiscal 2002. During these sessions, the committee met with the internal and external auditors without GAO management being present and discussed with the external auditors the matters that the Statement on Auditing Standards No. 61, Communications with Audit Committees, requires to be discussed. On the basis of the procedures performed as outlined above, we recommend that GAO's audited statements and notes be included in the fiscal 2002 performance and accountability report.



Sheldon S. Cohen  
Chairman  
Audit Advisory Committee

PART III

## *Independent Auditor's Report*

# COTTON & COMPANY LLP

auditors ♦ advisors

DAVID L. COTTON, CPA, CFE, CGFM • CHARLES HAYWARD, CPA, CFE, CISA • MICHAEL W. GILLESPIE, CPA, CFE • CATHERINE L. NOCERA, CPA, CISA  
MATTHEW H. JOHNSON, CPA, CGFM • SAM HADLEY, CPA, CGFM • COLETTE Y. WILSON, CPA • ALAN ROSENTHAL, CPA

### INDEPENDENT AUDITOR'S REPORT

Comptroller General of the United States

Cotton & Company LLP audited the General Accounting Office's (GAO) Balance Sheets as of September 30, 2002, and 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the years then ended. We found:

- The financial statements referred to above are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- GAO maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations,
- GAO's financial management systems substantially complied with the applicable requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- No reportable noncompliance with laws and regulations we tested.

The following four sections discuss the above conclusions in more detail. Our conclusions on Management's Discussion and Analysis (MD&A) and other accompanying information appear below, under the caption Consistency of Other Information.

#### Opinion on Financial Statements

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of GAO as of September 30, 2002 and 2001, and its net costs, changes in net position, budgetary resources, and financing for the years then ended in conformity with U.S. generally accepted accounting principles.

#### Opinion on Internal Control

In our opinion, GAO maintained, in all material respects, effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2002, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).



333 North Fairfax Street Suite 401 Alexandria, Virginia 22314  
703/836/6701 FAX 703/836/0941 WWW.COTTONCPA.COM DCOTTON@COTTONCPA.COM

### Opinion on FFMIA Compliance

In our opinion, GAO's financial management systems substantially complied with the three FFMIA requirements: (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level; as of September 30, 2002.

### Compliance with Laws and Regulations

The objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion. However, our tests for compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

This conclusion is intended solely for the information and use of the management of GAO, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

### Consistency of Other Information

We conducted our audits for the purpose of forming an opinion on the fiscal year 2002 and 2001 financial statements taken as a whole. Certain portions of the Performance and Accountability Report are not a required part of the basic financial statements, but are required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, and the Financial Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussions and Analysis*.

There are two types of material within GAO's Performance and Accountability Report that is not a part of GAO's basic financial statements: MD&A and other accompanying information. MD&A describes GAO and its missions, activities, program and financial results, and financial condition. MD&A is required supplementary information. With respect to GAO's MD&A, we made certain inquiries of management, compared the information for consistency with GAO's audited financial statements and against other knowledge we obtained during our audits. Other accompanying information consists of the full Performance and Accountability report except for the MD&A, the basic financial statements and notes to the financial statements, and this auditor's report. With respect to other accompanying information, we compared the information for consistency with the audited financial statements. Based on these limited procedures, we found no material inconsistencies between either the MD&A or the other accompanying information and the financial statements or notes. However, we did not audit the MD&A or the other accompanying information and express no opinion on them.

### Management's Responsibility

Management is responsible for:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;

**PART III**

- Establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met;
- Implementing, maintaining, and assessing financial management systems to provide reasonable assurance of substantial compliance with the requirements of FMFIA; and
- Complying with applicable laws and regulations.

**Auditor's Responsibility and Methodology**

Cotton & Company LLP performed its audits and examinations in accordance with *Government Auditing Standards*, U.S. generally accepted auditing standards, the American Institute of Certified Public Accountants' (AICPA) attestation standards, and OMB Bulletin No. 01-02. We believe our audits and examinations provide a reasonable basis for our opinions.

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

We have examined management's assertion that GAO maintained effective control over financial reporting (including safeguarding of assets) and compliance with applicable laws and regulations as of September 30, 2002, based on internal GAO evaluations using criteria established in FMFIA. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination. We conducted our examination in accordance with attestation standards established by the AICPA and *Government Auditing Standards* and, accordingly, obtained an understanding of internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; tested and evaluated the design and operating effectiveness of internal control; and performed other procedures considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

With respect to internal control related to significant performance measures included in the MD&A, we obtained an understanding of the design of internal control relating to the existence and completeness assertions and determined whether they had been placed in operation, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such control.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have examined management's assertion that, as of September 30, 2002, GAO's financial management systems substantially complied with the three FMFIA requirements: (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the SGL at the transaction level. Management's assertion was based on internal GAO evaluations using compliance indicators set forth in OMB guidance, dated January 4, 2001, *Revised Implementation Guidance for FMFIA*, and criteria in OMB Circulars A-127, *Financial Management Systems*, and A-130, *Management of Federal Information Resources*. Our responsibility is to express an opinion on whether GAO's financial

management systems substantially complied with the above-mentioned requirements, based on our examination. We conducted our examination in accordance with attestation standards established by the AICPA and *Government Auditing Standards* and, accordingly, we examined, on a test basis, evidence about GAO's substantial compliance with those requirements, and performed such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of GAO's financial management systems compliance with specified requirements.

We are responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to GAO. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

COTTON & COMPANY LLP



Charles Hayward, CPA

Alexandria, Virginia  
December 11, 2002



A black and white photograph of a classical building facade. The image features several tall, fluted columns with ornate capitals. In the foreground, a balcony with a decorative railing is visible. The text 'Part IV: Appendixes' is overlaid on the right side of the image in a white, italicized serif font.

*Part IV:  
Appendixes*

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# 1. *Accomplishments and Other Contributions*

In pursuing its strategic goals during fiscal 2002, GAO recorded hundreds of accomplishments and made numerous other contributions. This appendix provides details on the most significant.

The accomplishments document financial or other benefits achieved through action on GAO's findings or recommendations. Typically, the accomplishments describe GAO work that was done in prior fiscal years because it takes time to implement recommendations, realize benefits, and record them.

The other contributions describe instances in which GAO provided information or recommendations that aided congressional decision making or informed the public debate to a significant degree. Typically, the other contributions refer to GAO work completed in fiscal 2002.

In reporting these accomplishments and other contributions, GAO is holding itself accountable for the resources it received to implement its strategic plan for serving the Congress.



## 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*

### The Health Care Needs of an Aging and Diverse Population

*Strengthening FDA's Prescription Drug Oversight Activities:* The 1992 Prescription Drug User Fee Act, which was reauthorized in 1997, has given the Food and Drug Administration (FDA) the funding to approve new drugs and biologics more quickly. GAO's work showed that (1) drugs have been withdrawn from the market for safety reasons at a greater rate since the law's enactment in 1992 and (2) FDA has reduced its funding and staffing for other activities, such as the regulation of food and medical devices, so that it could fund its drug reviews adequately. Partly on the basis of our work, the Congress reauthorized the act in 2002 and allowed FDA to use user fees to fund a new risk management system for newly approved drugs that could lead to earlier detection of unanticipated drug side effects.

*Improving the Nation's Supply of Childhood Vaccines:* Over the past 2 years, supplies of vaccines for childhood illnesses, such as measles, mumps, rubella, and tetanus, have proved inadequate to meet public needs, causing some states to postpone vaccination requirements for schoolchildren and prompting federal authorities to recommend deferring some immunizations. GAO identified factors that contribute to the shortage of childhood vaccines and helped policymakers frame the problems, such as how to expedite the licensing of vaccine products and how to manage vaccine stockpiles, so that shortages do not become commonplace.

*Improving Nursing Home Care:* GAO's work over the past 5 years has helped raise public awareness of the unacceptable conditions prevalent in some 15 percent of America's nursing homes, where serious and recurring problems have harmed patients. As we recommended, the Centers for Medicare and



Source: See Image Sources.

Medicaid Services, which oversees nursing facilities, has increased the rigor of inspections conducted by state survey agencies, required states to be more responsive to complaints alleging patient harm, and mandated the application of sanctions to offending facilities. Our work has spurred a growing understanding of the dimensions of the problem and increased the likelihood that effective federal actions will be taken.

*Maintaining an Adequate Blood Supply:* Maintaining a safe and adequate blood supply is key to meeting the nation's emergency needs. In a 2002 report and associated testimony, GAO documented deficiencies in the collection and distribution of blood, as evidenced by experiences after September 11, 2001. Blood donations increased significantly then, leading to a nationwide surplus that stressed the collection system and resulted in six times the usual proportion of blood becoming outdated and discarded in the months following the attacks. Blood suppliers and the federal government now are reevaluating how blood is collected during and after disasters to avoid a repeat of this experience and to ensure that the inventory of blood on hand in the nation's blood banks is always sufficient to meet the medical needs of disaster victims.

*Helping the Nation Prepare for Bioterrorism:* Analyzing the results of its earlier work on the outbreak of West Nile virus, GAO identified a need for state and local governments to have the capacity to deal with conventional basic public health needs, because all epidemics, whether natural or terror-

related, pose detection and treatment challenges. The Department of Homeland Security is expected to play a critical role in preparing for and responding to bioterrorism; therefore, we are working with the Congress and with federal public health agencies to better understand how to prepare for bioterrorism without compromising the government's ability to respond to basic public health needs. In addition, we are advising the Congress on ways the federal government can more effectively coordinate efforts to detect bioterrorism and treat its consequences.

*Preventing Inappropriate Medicare Payments:*

Responding, in part, to a body of GAO work and recommendations, the Congress passed legislation in 1996 that increased funding from fiscal 1998 through fiscal 2003 for activities to help safeguard the Medicare program from improper payments. With this increased funding, the Department of Health and Human Services created a fraud and abuse control program and a Medicare integrity program for a variety of abuse-constraining activities. The increased funding for these two programs helped the Medicare program control improper payments by an additional \$8.1 billion for fiscal 2001 and 2002.

*Management Initiatives Reduce TRICARE's Open Change Orders:* The Department of Defense (DOD) supplements its health care program, TRICARE, with contracts for civilian services. These contracts are modified through the use of change orders when new benefits are provided or when administrative changes occur. DOD's lack of focus on the change order process resulted in a backlog of over 500 outstanding change orders, with a potential liability in the hundreds of millions of dollars. As a result of our work, DOD implemented a new process that provides a structured approach to approve, prioritize, and track prospective changes. Changes are now negotiated and settled before they are implemented. With DOD's increased emphasis, the number of outstanding changes orders declined from more than 560 in July 2000 to about 50 in August 2002.

*Improving VA's Health Care Resource Allocation:* In one report and two testimonies in 2002, we identified changes that the Department of Veterans Affairs (VA) needed to make in its system for allocating financial resources to its 21 health care networks,

called the Veterans Equitable Resource Allocation (VERA) system. We reported that VA could most improve VERA by better adjusting for differences in networks' patient health care needs. In response to our report, VA acknowledged the limitations of its current adjustment process and said it is working internally and with an outside contractor on how best to correct these limitations. VA is also examining other improvements to VERA that we recommended. These include determining why some of VA's health care networks experience budget shortfalls after receiving their VERA allocations and establishing a financial mechanism to partially offset the risk that some networks may have an unusually large number of high-cost, chronic care patients, whose costs are not well predicted by current cost predictors.

*Ensuring Accountability in Medicaid and State Children's Health Insurance Programs:* GAO informed policy deliberations on the appropriateness of recent Department of Health and Human Services (HHS) waivers of federal requirements granted to states for managing their Medicaid and State Children's Health Insurance Programs. We found that HHS had approved waivers for purposes not authorized by statute and had not ensured that the waivers received adequate public input before being approved. We suggested that the Congress and HHS take several actions to correct these problems. HHS has since revised its guidance to states on obtaining public input and has made waiver applications and decisions more readily available to the public. The leadership of the Senate Finance Committee, after highlighting the concerns with the waiver approvals and approval process in publicly released letters to HHS, proposed legislation to address the unauthorized uses of funds and inadequate public input process.

*Understanding Increasing Long-Term Care Demand and Expenditures:* In a series of testimonies and a report, GAO showed that spending for long-term care could nearly quadruple by 2050 as the baby boom generation ages and demand for services increases. This burgeoning spending will especially impose burdens on federal and state budgets because public programs—particularly Medicaid—finance most long-term care expenditures. We also demonstrated that services offered to elderly individuals needing long-term care could vary widely, depending on the coverage available

through states' Medicaid programs and case managers' assessments of individuals' needs. The U.S. Senate Special Committee on Aging drew extensively on our work in developing its findings and in its ongoing consideration of long-term care financing reform.

*Improving Veterans' Access to Medicines for Treating Psychosis:* GAO reported that because of cost considerations procedures at some VA facilities have limited or could restrict access to an atypical antipsychotic drug on VA's national list of drugs for treating schizophrenia and bipolar disorders. Such procedures are contrary to VA's prescribing guideline for atypical antipsychotic drugs. In response to our work, VA has reiterated to all its employees that they should follow the prescribing guideline that allows veterans access to the most appropriate medication for treatment. Furthermore, VA has enhanced the capability of its pharmacy database so that VA management can now monitor physicians' prescribing practices for these medications at each facility.

*Improving Communication between Medicare and Physicians:* GAO identified problems in the way that Medicare program requirements are communicated to physicians. We reported that Medicare instructions and guidance, which enable physicians to bill properly, were often difficult to use, out of date, inaccurate, and incomplete. Our work helped the Centers for Medicare and Medicaid Services (CMS), the agency that administers the Medicare program, focus on the need to provide physicians with better information in its written communications and through its telephone call centers and Web sites. CMS has taken several steps to improve communication with physicians, including publishing a national bulletin that describes physicians' responsibilities and requirements under Medicare law, establishing new performance standards for its call centers so that questions are answered promptly and correctly, and reexamining its procedures for monitoring regional Web sites to ensure that the sites provide consistent and accurate information.

*Including Women in Health Research:* GAO has issued a series of reports on the inclusion of women as study subjects in clinical research funded by the National Institutes of Health (NIH) and clinical drug trials reviewed by the Food and Drug Administra-

tion. In response to our work, both agencies have taken steps to increase the participation of women in study populations. Most recently, NIH took action in response to our recommendation that, to better monitor inclusion, NIH staff who transmit data on study populations to the agency's tracking system should receive ongoing training on the system's purpose and requirements. After deploying a new tracking system to monitor the inclusion of women and minorities in clinical research, NIH provided extensive training, including demonstrations and hands-on training. In addition, all training materials will remain available to NIH staff on-line.

*Improving Pediatric Drug Research and Labeling:* Partly on the basis of GAO's testimony, the Congress passed the Best Pharmaceuticals for Children Act of 2001, which reauthorizes what is known as the pediatric exclusivity provision of the Food and Drug Administration Modernization Act of 1997—a provision that extends manufacturers' exclusive marketing rights by 6 months for drugs that are studied in pediatric patients. We testified that this provision had been successful in generating clinical studies for drugs tested by manufacturers for pediatric use. The 2001 act also addresses another key issue we identified. Specifically, it requires that safety information from pediatric studies be added to drug labels in a timely manner and provides a process by which the Food and Drug Administration can seek labeling changes to drugs granted pediatric exclusivity.

### **The Education and Protection of the Nation's Children**

*Understanding What It Takes to Ensure Accountability for Public Education:* In 2001, the Congress passed the No Child Left Behind Act, building on earlier efforts to make the states more accountable for public education and signaling the continuing importance of improving student achievement. In 1994, concerned that federal funding was not significantly improving the educational progress of at-risk students, the Congress changed title I of the Elementary and Secondary Education Act to require that the states ensure accountability in their public school systems. A key requirement was student testing. The No Child Left Behind Act raised the stakes for schools that fail to achieve adequate test scores. But this year, collaborating with other audit organizations, GAO studied the states' implementation of the 1994 requirements and found wide-

spread shortcomings, raising the question of the states' capacity to fulfill the additional requirements of the 2001 legislation. For Americans concerned about improving public education, the lesson of our work is that setting accountability requirements, such as student testing standards, is only part of the job. Effective implementation, including such basics as ensuring that tests are scored accurately, is also important.

*Obtaining Information on the Effectiveness of Federal Student Aid:* The federal government uses a range of policy tools to help students finance post-secondary education, including primarily grants, loans, and tax credits. In 2002, GAO issued a report, prepared by a team of staff from across the agency, that addressed the relative effectiveness of these tools in promoting postsecondary attendance, choice, and completion, as well as the tools' impact on college costs. We found that little information was available for the Congress to weigh the relative effectiveness of the tools and recommended that the Secretaries of Education and the Treasury take steps to address this lack of information. Both agencies agreed with our recommendations and plan to do research on the relative effectiveness of various policy tools in providing access to higher education.

*Establishing Criteria for Educational Progress for Disadvantaged Children:* In 2000, GAO reported that states' criteria for assessing the performance of school children did not allow for specifically identifying the performance of disadvantaged children. As a result, the states could not gauge the impact of title I funds on these children. We recommended that the Congress consider requiring that the states establish criteria for progress specifically for disadvantaged children, as well as for all students. Responding to our recommendation, the No Child Left Behind Act of 2001 required that the states, in defining adequate yearly progress, set separate objectives for improvement in the achievement of economically disadvantaged students, students of major racial and ethnic groups, students with disabilities, and students with limited English proficiency.

*Evaluating Outcomes of the Head Start Program:* In 1998, GAO found that the Department of Health and Human Services (HHS) had little information on whether Head Start Programs were achieving

their objectives. Without this information, it was not possible to determine the programs' impact on children's development. In 1998, the Congress passed the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, which required HHS to study the impact of the Head Start Programs, as we had recommended. We had also recommended that HHS develop and implement a plan for assessing individual Head Start grantees' performance to ensure that the grantees are held accountable for achieving the programs' purposes. In response to our recommendation and the 1998 legislation, HHS put a process in place to assess grantees' outcomes.

*Improving Measures of Educational Progress:* In 2000, GAO found that states chose different criteria for measuring the yearly progress of public school students and that all but two states defined progress solely in terms of assessment results, without including other educational outcome measures such as graduation, attendance, or dropout rates. Reacting to these findings, the Congress, in enacting the No Child Left Behind Act of 2001, required that states apply the same standards of academic performance to all public school students in the state, measure the progress of public schools and local educational agencies primarily on the basis of yearly student academic assessments, and include a time line for achieving specific academic performance goals. In addition, the legislation required the states to include graduation rates for high schools and an additional outcome measure for middle and elementary schools, such as attendance rates, when defining adequate yearly progress.

*Ensuring the Timely Transfer of Information on Migrant Children:* Children in migrant agricultural worker families often face significant developmental and educational obstacles that are compounded as families move from site to site in search of work. Recognizing the needs of these children, the Congress created the Department of Education's Migrant Education Program in 1965 and the Department of Health and Human Services' Migrant Head Start program in 1969. In reviewing these programs, GAO found that neither Education nor HHS has a system to transfer information on participants between locations, despite the need to transfer key information in a timely way as students move around the country. As a result, students may experience inappropriate classroom placements or delays in receiving

ing services, may be given repeat immunizations, or may fail to complete high school graduation requirements. In enacting the No Child Left Behind Act of 2001, the Congress required, as we had recommended, that Education and HHS develop a nationwide system to transmit essential information about migrant children from school district to school district.

*Better Targeting of Education Funds to High-Poverty School Districts:* In 2001, GAO briefed congressional staff on the extent to which title I funds were targeted to low-income children. We pointed out (1) that the “hold harmless” provisions in the appropriations laws limited the extent to which funds were targeted because the provisions guaranteed school districts 100 percent of their previous year’s allotment of title I funds, rather than reflecting changes in their numbers of poor children; (2) the potential negative effects of the Title I Finance Incentive Grants, which had not been funded at the time of our briefing, on directing funds to higher-poverty school districts; and (3) the benefits of funding a Targeted Grant Formula in allocating proportionally more funding per poor child to districts with higher numbers and percentages of poor children. In enacting the No Child Left Behind Act of 2001, the Congress took action to remedy the problems we had identified and to ensure that funds are better targeted to high-poverty school districts.

*Improving the District of Columbia’s Child Welfare System:* In 2000, GAO studied efforts by the District of Columbia to reform its child welfare system. We found that a lack of integration in the District’s child welfare system worked against preventing children from entering the system and reducing the length of their stays. Compounding these challenges, we found, the child welfare system continued to operate without a fully developed collaborative structure and the effective working relationship needed to provide integrated services to children and their families. In response to these problems, the District issued a Child Welfare System Emergency Reform Plan. Our work helped to guide the development of the plan, which contains several major elements intended to address the challenges confronting the child welfare system.

*Avoiding Duplicative Funding for Social Service Initiatives:* In reviewing the Department of Health and Human Services’ fiscal 2002 budget request, GAO

found that funds for existing programs could be used to accomplish the goals of three newly proposed programs. We pointed out that these new programs, which were designed to strengthen fatherhood and to provide group homes to teenage mothers and their children and mentoring services to the children of prisoners, could be funded through the Social Services and Temporary Assistance for Needy Families block grants. Our work resulted in financial benefits of \$164 million.

*Improving Child Care Quality and Availability:* During fiscal 2002, we conducted work in preparation for the reauthorization of the Child Care and Development Block Grant and briefed congressional staff on developing and marking up the reauthorization legislation. We reported the levels of state spending on child care quality initiatives, the factors that states weigh in determining these spending levels, and the ways states set reimbursement levels for child care providers. Our work was reflected in provisions of the reauthorization legislation that addressed the quality set-aside (the percentage of their grant funding that states must set aside to improve the quality and availability of child care) and state reporting on child care fees.

### **The Promotion of Work Opportunities and the Protection of Workers**

*Computerized Interfaces Identify Undisclosed Earnings:* In 1998, GAO reported that an Office of Child Support Enforcement database, known as the National Directory of New Hires, could be used to help prevent or reduce overpayments of supplemental security income that occur when recipients fail to fully disclose their earnings. We recommended that the Social Security Administration (SSA) develop computerized interfaces to access this database and detect undisclosed earnings during initial and subsequent determinations of eligibility. SSA developed these interfaces, gave all field offices direct access to the database, and instructed field staff to use the database for cases meeting specified criteria. These actions have resulted in financial benefits of about \$797 million.

*Improving Verification of Continued Eligibility for Supplemental Security Income:* In 1998, GAO described SSA’s heavy reliance on recipients to self-report information on their financial status and recommended that SSA enhance its ability to verify this information by accelerating efforts to identify more

timely and complete sources of financial eligibility information. In 2001, SSA distributed software to help its staff examine a variety of databases quickly to detect possible changes in factors that can affect recipients' continued eligibility for benefits. After scanning the available databases, the new software creates an integrated review sheet for each recipient. With this information, SSA staff can more easily query recipients about factors that can affect their eligibility for benefit payments. Thus, the software improves the efficiency of SSA's continuing eligibility reviews.

*Increasing Reliance on Electronic Data Sharing:*

Under certain circumstances, SSA reduces disability benefits if a person receives benefits from both the Disability Insurance (DI) and the Workers' Compensation programs. SSA relies heavily on beneficiaries to report their Workers' Compensation benefits. GAO found that a lack of reliable information on the Workers' Compensation benefits they received caused some DI beneficiaries to be overpaid and others to be underpaid. Our report gave new impetus to SSA's efforts to obtain better information through data sharing on the Workers' Compensation benefits received by DI beneficiaries. SSA awarded a grant to an industry association to gather more information about the capacity of states to provide computerized Workers' Compensation benefit information for individual claimants and to educate state Workers' Compensation agencies on the advantages and ease of sharing electronic records with SSA.

*Preventing Overpayments of Unemployment Insurance:*

This year, GAO examined the Department of Labor's Unemployment Insurance program, a key component in ensuring the financial security of America's workforce. In calendar year 2001, this federal-state partnership program paid out some \$30 billion in benefits to workers who lost their jobs. But of this \$30 billion, Labor estimated that some \$2.4 billion consisted of overpayments attributable to weaknesses in the program's management, oversight, and internal controls. Labor also estimated that nearly \$600 million of the overpayments involved fraud. Citing our findings, the Chairman of the Subcommittee on Human Resources, House Committee on Ways and Means, called on the nation's governors to combat unemployment insurance fraud and abuse and to use part

of the \$8 billion in additional federal unemployment funding recently distributed to the states to strengthen the program's integrity.

*Eliminating Maintenance-of-Effort Funding for a Food Stamp Program:* In 1996, welfare reform tightened work requirements for some food stamp participants, potentially making it difficult for them to obtain benefits if they were unable to find jobs. To avoid cutting off benefits for participants who were willing to work but unemployed, the Congress authorized increased funding for the food stamp employment and training programs. These funds were called maintenance-of-effort funds because the states were required to maintain their state-funded expenditures for employment and training at a level no lower than in fiscal 1996. GAO found that the states had spent \$98 million, or 30 percent of the funds available, for the food stamp employment and training program in fiscal 2000. Because unobligated balances are carried over from prior years, \$426 million was available for employment and training in fiscal 2001. Our findings led the Congress to eliminate the maintenance-of-effort funding and thereby reduce funding for the overall program by \$343 million in fiscal 2002.

*Simplifying Requirements for Determining Food Stamp Eligibility and Benefits:*

In 2001, GAO reported and testified on the complexity of the regulations for determining eligibility and benefits for food stamps. Because of this complexity, the program was costly to administer and decisions were inherently error-prone. Accordingly, we recommended that the Department of Agriculture work with the Congress to identify ways to simplify certain program requirements. When the Congress reauthorized the Food Stamp program in 2002, it made a number of revisions to simplify the requirements for determining program eligibility and benefits.

*Improving the Job Corps Program:* Between 1996 and 1999, GAO did a substantial body of work that provided information and recommendations to improve the operations of the Department of Labor's Job Corps program. As a result of our work, the program has (1) revised its definition of what constitutes completion of vocational training, (2) modified its performance measures for placement contractors to make them more meaningful, (3) revised its policy guidance on eligibility determina-

tion and screening factors to make the guidance clear and consistent, (4) implemented new performance measures and monitoring procedures to hold national training contractors more accountable, and (5) improved the accuracy of reports of jobs obtained by participants. In addition, the Congress passed legislation in 1998 requiring Job Corps to institute a policy of assigning Jobs Corps students to centers in their home states. Previously, students could be sent to centers outside their home states and traveled an average of four times as far as they would have if they had been assigned to the closest center in their state of residence.

*Improving Data Collection for Agricultural Guestworker Program:* Under the H-2A guestworker program, employers may bring workers into the country temporarily, as nonimmigrants, to perform seasonal agricultural work when domestic workers are unavailable. In 1997, the Congress was concerned that this program would not be able to provide enough workers in the event of a farm labor shortage. GAO found that the Department of Labor collected limited data for overseeing the program's daily operations and could not determine the extent to which regional offices complied with statutory and regulatory deadlines for processing applications. In response to our recommendation, Labor awarded a contract to a private firm to develop and implement an automated reporting and application-processing system. The system, to be implemented in March 2003, will allow Labor to use data to monitor and improve the performance of the H-2A program.

*Retaining the Substantial Gainful Activity Level for the Blind:* To establish and maintain eligibility for disability insurance benefits, beneficiaries must not only meet medical eligibility criteria but also demonstrate that they are not earning above a certain amount—known as the Substantial Gainful Activity (SGA) level. In March 2000, congressional hearings focused on the role of earnings in determining initial and continuing eligibility for disability benefits for individuals who are blind or have other disabilities. Prior to these hearings, bills introduced in the House and Senate had proposed eliminating the SGA level for the blind. While an advocate organization for the blind testified that it wanted the Congress to eliminate the SGA level for the blind, GAO responded that doing so would increase the costs of disability insurance and fundamentally alter the pur-

pose of the disability insurance program by removing the connection between eligibility for benefits and the inability to work. As a result of our testimony, the Congress retained the SGA for the blind, resulting in a financial benefit of \$1.124 billion in fiscal 2001 and 2002.

### **A Secure Retirement for Older Americans**

#### *Informing the Public about Employee Pension*

*Issues:* The bankruptcy of Enron came as a particularly painful shock to its employees, whose pensions were tied to the fate of the company. In the wake of the bankruptcy and the questions it raised for workers nationwide, GAO took steps to help the Congress and the public better understand private pension issues. For example, we alerted the Congress to potential weaknesses in the legal protections for employee pensions. In addition, we showed how employers' stock investment decisions can increase the risks to which their employees' pension plans are exposed and recommended improvements in the information employees must receive. Moreover, we provided technical assistance to Senators and their staffs in drafting pension reform legislation. Finally, our "pension primer," called *Answers to Key Questions about Private Pension Plans*, offered Members of Congress, their staffs, and the public information about concepts and rules that have become increasingly relevant for Americans concerned about their future economic security.

#### *Improving the Management of the Pension and Welfare Benefits Administration's (PWBA) Enforcement*

*Program:* In 2002, GAO reported that PWBA had not realized the expected level of participation in the Voluntary Fiduciary Correction program, which encourages employee benefit plan officials to identify and correct violations of the Employee Retirement Income Security Act of 1974 (ERISA) on their own. PWBA had anticipated that 700 plans would apply for and use the program; however, only 37 plans had applied at the time we did our study. We found that certain requirements, such as those for notifying plan participants of potential violations and for levying excise taxes on prohibited transactions, may hinder participation in the program. We recommended that PWBA analyze barriers to the program and explore ways to reduce them. In response to our recommendation, PWBA modified key features of the program. For example, it eliminated the requirement for plans to notify partici-

pants of potential violations and established a limited excise tax exemption for plans that participate in the Voluntary Fiduciary Correction program.

*Limiting Potential Abuse of the Government Pension Offset Exemption:* In August 2002, GAO completed a time-sensitive and high-profile review of potential abuse by state and local government employees of an exemption to the Government Pension Offset—a provision designed to equalize the treatment of workers covered by Social Security and those with noncovered government pensions. This review resulted in a congressional briefing and final GAO report documenting a practice that could cost the Social Security Trust Fund hundreds of millions of dollars. The Congress is currently considering legislation drafted in response to our report that would address the potential abuse.

*Safeguarding Personal Information:* In 2002, GAO reported and testified on the ways in which governments at all levels use the Social Security number and the extent to which they protect it. Our work pointed particularly to the challenge of safeguarding personal information, including Social Security numbers, that appears on public records, which are sometimes available to the public and in some instances available over the Internet. Our contacts with a variety of local record-keeping officials and national organizations representing such officials has helped bring these issues to public attention, and actions to secure such information, or remove it from public records entirely, are under consideration by such groups.

*Improving Distribution of the Social Security Administration's Death Master File Information:* In light of concerns about identity theft and the potential for misuse of a deceased person's Social Security number, it is important for the Social Security Administration (SSA) to gather death information and distribute it expeditiously to financial institutions. GAO found that death information collected by SSA generally reached financial institutions and other entities within 1 to 2 months of a person's death; however, delays in processing and distributing the information sometimes occur. In testimony, we concluded that SSA and the National Technical Information Service could make death information available to financial institutions more quickly. Partly in response to our testimony, SSA began furnishing its death file information to the Service on a

weekly basis, and the Service began making it available to its customers weekly. SSA also now updates the Death Master File electronically.

*Evaluating the Department of Labor's Retirement Saving Activities:* In 2001, GAO reported that Labor's Pension and Welfare Benefits Administration (PWBA) had not assessed the effectiveness of its activities to promote saving for retirement. In particular, PWBA had little specific information about the effectiveness of individual publications and other outreach activities. We recommended that PWBA measure the effectiveness of its outreach program so that it could best target its limited resources. In response to our recommendation, PWBA contracted for focus group evaluations of its retirement savings materials to determine their usefulness. In addition, PWBA received recommendations from a contractor on ways to better target its outreach program.

*Informing the Public about the Implications of the Aging of the U.S. Workforce:* In November 2001, GAO issued a report describing and analyzing the challenges posed to the nation by the aging of the U.S. labor force. This report alerted the public and the Congress to potential adverse effects, not only on Social Security and the federal budget, but also on employers' ability to retain skilled workers and ultimately on long-term economic growth. We recommended that executive agencies develop comprehensive policy responses to these challenges. The Department of the Treasury and the Internal Revenue Service are already taking some action. For example, they have issued a notice requesting comments on issues relating to phased retirement arrangements under qualified defined benefit plans.

*Reforming Social Security:* This year, the Comptroller General testified before the House Budget Committee on issues related to reforming the Social Security program. GAO has also provided numerous informal briefings on this topic. These contributions have strengthened our reputation as an honest broker of objective information on this contentious and controversial issue. Using a complex simulation model, we have supplemented the agency's analytical work in this area and enhanced our ability to analyze the effects of different reform proposals on the level and distribution of Social Security benefits.



## An Effective System of Justice

*Contributing to Election Reform:* Voting problems during the September 2002 primaries demonstrated the continuing relevance of GAO's work arising from the November 2000 election. In a series of reports, we disclosed major challenges relating to the people, processes, and technology involved at each stage of the election process—registration, absentee and early voting, preparing for and conducting election day activities, and vote tabulations. We shared our observations and criteria for evaluating reform proposals not only with the Congress but also with state and local election commissioners. Nationwide, there are more than 10,000 local election jurisdictions, and our work has relevance for all of them. Our work also contributed to the elections reform legislation passed by the Congress, which addresses such matters as federal subsidies for voting machinery, standards for the equipment, improvements in voter registration rolls, and better access for voters with disabilities.

*Alerting the Congress to the Prevalence and Cost of Identity Theft:* Identity theft is the fastest-growing type of crime in the United States. It involves “stealing” another person’s personal identifying information—such as the Social Security number, date of birth, and mother’s maiden name—and then using the information for fraudulent purposes. GAO’s reporting helped the Congress devise the Identity Theft and Assumption Deterrence Act of 1998. Since then, most states have enacted laws that make identity theft a crime. Still, the growth of identity theft and the frequently multi- or cross-jurisdictional nature of this type of crime underscore the importance of cooperation among federal, state, and local law enforcement authorities. This year, we reported further on the prevalence and cost of identity theft and worked to promote awareness and use of inter-governmental mechanisms for enhancing data sharing and enforcement.

*Improving Efforts to Combat Immigration Benefit Fraud:* Immigration benefit fraud involves attempts by aliens to obtain benefits such as naturalization, work authorization, or adjustment of status (e.g., from student to permanent resident) through illegal means—for example, using fraudulent documents. Immigration and Naturalization Service officials believe that the problem is serious; they also believe that some aliens are applying for benefits so that they will be able to carry out illegal activities,

such as crimes of violence, narcotics trafficking, and terrorism. GAO reviewed the Service’s efforts to combat benefit fraud and identified shortcomings in the agency’s enforcement strategy, working level guidance, case tracking and management, information sharing, and performance measurement. The Service agreed with our findings and has begun implementing the corrective actions we recommended.

*Improving the Monitoring and Evaluation of Department of Justice Grants:* In a series of reports, GAO cited poor documentation of grant monitoring and weak impact evaluations as problematic in ensuring the efficiency and effectiveness of the Department of Justice’s grants. The Department’s Office of Juvenile Justice and Delinquency Prevention and Office of Justice Programs have taken steps to address the shortcomings we identified, both in the monitoring of grants to ensure that funds are spent as intended and in the design of impact evaluations to ensure that they are more likely to yield valid results or have been scaled back and redirected to achieving other research purposes. In addition, proposed legislation responsive to our recommendations for improvements in evaluations of the Department’s Drug Court program would mandate more rigorous data collection and affect evaluation.

## The Promotion of Viable Communities

*Improving Human Capital Management at the Small Business Administration (SBA):* GAO examined SBA’s organizational alignment and the effect this alignment has on SBA’s ability to fulfill its mission. GAO found that SBA’s current structure contributes to the challenges it faces in delivering services to the small business community. In particular, ineffective lines of communication; confusion over the mission of district offices; complicated, overlapping organizational relationships; and a field structure not consistently matched with mission requirements combine to impede the efforts of SBA staff to deliver services effectively. To guide the organizational changes needed to improve its delivery of services and to respond to issues and challenges raised by GAO, the Office of Management and Budget, and the SBA Inspector General, SBA has drafted a plan for a 5-year workforce transformation. The draft plan recognizes SBA’s need to restructure its workforce and streamline its headquarters operation.

*Reducing the Cost of Federal Housing Programs:* In response to GAO reports and recommendations over the past several years, the Congress, the Department of Housing and Urban Development (HUD), and the U.S. Department of Agriculture's Rural Housing Service took actions that produced financial benefits totaling \$6.1 billion. Over \$4.8 billion resulted from GAO's recommendation that HUD review unexpended balances in all of its programs to ensure timely expenditure of appropriated program funds. The remaining benefits resulted from a series of actions in response to our work. For example, the Congress (1) funded fewer new programs or set-asides than HUD had requested, (2) terminated Operation Safe Home, and (3) enacted legislation that replaced HUD's home mortgage assignment program with less costly alternatives. Additionally, the Rural Housing Service centralized its servicing for rural single family housing loans.

*Providing a "Roadmap" for Management Reform at HUD:* GAO has designated programs in the Department of Housing and Urban Development as high risk since 1994. Although we removed the high-risk designation from one of HUD's programs (community planning and development) after the department strengthened its management controls, programs in two other areas (single-family mortgage insurance and rental housing assistance), which account for about two-thirds of HUD's budget, remain high risk. In response to requests from the Senate Committee on Banking, Housing and Urban Affairs, we reported and testified in 2002 on HUD's progress in achieving management reform as well as in addressing three major management challenges—improving its human capital policies, programmatic and information management systems, and contracting practices. HUD management is taking action in response to our work. During his confirmation hearings in early 2001, HUD Secretary Mel Martinez, citing our work, made improving HUD's management the department's highest priority. The administration then introduced HUD's first Performance Plan, noting that HUD was using our reports as a "roadmap" for making management improvements. In July 2002, the Deputy Secretary reiterated the department's position before the Senate Committee on Banking, Housing and Urban Affairs and endorsed our characterization of HUD's three major management challenges.

*Contributing to the Debate on Homeland Security:* In a series of testimonies delivered in Washington, D.C., and throughout the country, GAO discussed the need for coordination and cooperation among all levels of government to develop a strategy to improve national preparedness and an effective response in the event of future terrorist attacks. Drawing on our body of work on terrorism, emergency preparedness, and policy options for the design of federal assistance, the testimonies noted the need for a national homeland security strategy to help redefine the roles of local, state, and federal government entities in light of new and emerging threats. The testimonies also discussed the need for developing performance goals and measures to assess the preparedness of all levels of government and for carefully choosing assistance tools, such as grants, regulations, and tax incentives, to facilitate the targeting of resources to the areas of highest risk and greatest need.

### **Responsible Stewardship of Natural Resources and the Environment**

*Improving the Process for Recognizing Indian Tribes:* GAO assisted the Congress in its deliberations over how to reform the Bureau of Indian Affairs' regulatory process for federally recognizing Indian tribes. In fiscal 2002, GAO issued a report and testified twice on the need for the Bureau to provide clear, timely recognition decisions. As of July 2002, there were 562 federally recognized Indian tribes, and hundreds more had petitioned the Bureau for federal recognition. We reported that because of weaknesses in the recognition process, the basis for the Bureau's tribal recognition decisions is not always clear and the time required to reach a decision can be substantial. Without improvements to address these problems, confidence in the regulatory process will continue to erode. In response to our recommendations, the Bureau has developed a strategic plan to improve the objectivity and efficiency of the tribal recognition process.

*Formulating a Plan for the Multi-Billion-Dollar Everglades Restoration:* Restoring the Everglades will take billions of dollars over 50 years and require many federal and nonfederal agencies to work together to achieve the goals of a healthy, restored ecosystem. Since 1999, we have identified several components missing from the initiative's basic planning and organizational structure and

have made recommendations to improve the prospects for restoration. In response, the Congress required the task force that administers the initiative to develop a strategic plan and a conflict resolution process and to prepare a land acquisition plan. The task force developed its first strategic plan in 2000 and updated the plan, in part to address our comments, in 2002. It is currently finalizing the land acquisition plan and a conflict resolution process. Our ongoing work on the initiative includes a study on the coordination of scientific activities to support restoration and contributions to congressional oversight hearings on the progress made in developing scientific information.

*Improving the Management of Nuclear Waste*

*Cleanup Projects:* In 2000 and 2001, GAO reported on the Department of Energy's (DOE) cleanup of nuclear waste contamination at two nuclear processing sites, in Paducah, Kentucky, and West Valley, New York. At Paducah, we found that significant quantities of hazardous materials had not been included in the site cleanup plan. At West Valley, we found that differing cleanup standards and disagreements between DOE and the state were hindering progress. In response to our recommendations, (1) DOE incorporated the excluded hazardous materials into the Paducah site's cleanup plan and agreed to specify the plan's priorities, costs, and schedules, and (2) federal regulators agreed on cleanup standards for the West Valley site and the Congress, as we had suggested, directed DOE and the state to resolve their differences.

*Increasing the Capacity of the International Audit Community to Assess Environmental and Agricultural Programs:* GAO staff helped strengthen auditing practices in foreign countries by taking leadership roles in the activities of the International Organization of Supreme Audit Institutions (INTOSAI). In 2002, GAO staff on INTOSAI's Environmental Working Group were instrumental in developing guidance for conducting environmental audits, and GAO staff at a joint United Nations/INTOSAI meeting took the lead in developing guidance for auditing agricultural programs. Both guidance documents are being translated and published in five languages.

*Improving Grant Management and Oversight:* GAO recommended in 2001 that the Environmental Protection Agency (EPA) improve its oversight of grant-

ees and revise its outdated grant regulations to conform with current practices. EPA provides over half of its budget of about \$8 billion to grantees to accomplish its environmental programs, and effective oversight of these grantees is critical to achieving the agency's environmental goals. We found that EPA was not effectively scrutinizing grantees for unallowable costs or using single audit information as effectively as it could. We also found that existing grant regulations did not reflect actual practices. In response to our recommendations, EPA revised its grant regulations in 2002 to require testing for unallowable costs and to accurately reflect its grant fellowship practices. EPA also improved its training for grant personnel so that they could make better use of single audit information.

*Reducing Nuclear Waste Treatment Costs:* In 1996, GAO reviewed DOE's Hanford tank waste privatization project and found many unresolved technical and financial uncertainties. In 1998, GAO compared DOE's Hanford approach with several alternative contracting and financing strategies and suggested that DOE reassess its approach in light of significant cost growth. In June 2000, GAO testified that DOE should reevaluate its Hanford approach and consider other contracting and financing options. DOE subsequently terminated the Hanford tank waste project, and, after evaluating alternative contracting and financing options, awarded a new contract that is expected to achieve significant cost reductions—about \$4 billion—over the life of the construction phase. The financial benefit for fiscal 2003, 2004, and 2005 is about \$1.5 billion.

*Helping Enhance Federal Oversight of Restructured Energy Markets:* With the restructuring of the electricity and natural gas industries, from regulated monopolies to competitors in the marketplace, GAO has contributed to the Congress's understanding of key issues in ongoing energy policy debates. These issues include the implications of the Enron collapse for the markets, the exercise of market power in California, reasons for price spikes in the natural gas markets, and the Federal Energy Regulatory Commission's capacity to oversee energy markets. Our work has also influenced federal agencies' decisions affecting concentration in the ethanol market and the petroleum industry.

*Protecting the Taxpayer against Faulty Analyses in Public Works Programs:* GAO found that the Corps of Engineers' economic justification for the proposed deepening of the Delaware River ship channel was seriously flawed. The Corps' justification contained numerous material errors, including miscalculations, invalid assumptions, and the use of significantly outdated information. Furthermore, the Corps' quality control process failed to identify these major flaws. Acting on GAO's findings, the Corps' Director of Civil Works suspended this \$311 million project pending a comprehensive reanalysis. Moreover, in light of the many problems identified for this individual project, the Director ordered a review of 164 other projects.

*Making the Food Supply Safer for the American People:* Although the U.S. food supply is considered one of the safest in the world, foodborne illness remains an extensive and expensive problem, raising concerns about the federal government's ability to ensure the safety of domestic and imported foods. Recently, the threat of deliberate contamination of our food by terrorists has significantly elevated those concerns. After we issued a series of reports and testimonies on the federal government's ability to ensure the safety of the food supply, the Congress and federal agencies took action to strengthen oversight and enforcement of the federal food safety system. For example, the Congress included several food safety provisions in the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, including those that (1) strengthen the Food and Drug Administration's (FDA) authority to prevent the reimportation of potentially unsafe food that has been refused entry into the United States and (2) require domestic food-processing firms to register with FDA to ensure that they are known to the agency and subject to its processing regulations. In addition, the U.S. Department of Agriculture developed a training and certification program and required statistical process controls for a pilot program testing a new inspection approach for slaughter facilities.

*Strengthening Federal Efforts to Prevent and Fight Wildfires:* In 1998, GAO first reported on the potential for large catastrophic wildfires to cause extensive damage to forests and nearby communities. Since then, we have facilitated the involvement of federal agencies in (1) coordinating their actions and providing overall leadership, (2) identifying the

major causes of these types of fires and setting priorities for reducing their effect, and (3) identifying ways for the agencies to enhance their preparedness for fighting these fires. As a result of our efforts over the years, the Department of Agriculture and the Department of the Interior have developed a cohesive strategy to help restore and maintain the health of ecosystems damaged or threatened by catastrophic wildfires. This strategy includes setting priorities to deal with the problem, establishing a Wildlands Fire Leadership Council to provide coordination and leadership to address catastrophic wildfire threats, and beginning to hire additional firefighters and purchase additional fire-fighting equipment to enhance the agencies' fire-fighting capability.

*Improving Farm Loan Programs:* In 1990, GAO designated the Department of Agriculture's Farm Loan Programs as a high-risk area because of billions of dollars of losses attributable to significant problems primarily with the department's direct loan portfolio. Since then, the department has implemented many of our recommendations to improve the program, and the 1996 Farm Bill incorporated our key legislative recommendations. These changes eliminated the revolving-door credit for which the department had become known and gave farmers strong incentives to repay their loans rather than to seek loan forgiveness or loan refinancing that included write-offs of delinquent debt. We estimated that, during the 5 years following enactment of the 1996 Farm Bill, improvements in the program reduced losses on direct loans by about \$4.8 billion, compared with the losses for the 5 preceding years.

*Enhancing the Credibility of Environmental Regulations:* In developing regulations to protect the environment and public health, the Environmental Protection Agency (EPA) relies extensively on its Science Advisory Board for independent peer reviews of key scientific studies and methodologies. GAO found that the board's peer review results could be undermined by allegations of conflict of interest and bias because its policies and procedures were not sufficient to (1) ensure the independence of peer review panel members, (2) ensure a balance of viewpoints on each panel, or (3) inform the public about the points of view represented. In 2002, EPA responded fully to our recommendations, implementing new policies and procedures that significantly enhance the board's ability to identify and

address potential conflicts of interest, develop balanced panels, and better inform the public about the panels.

### **A Secure and Effective National Physical Infrastructure**

*Proceeds from States' Sale of Real Property Remain Federal Funds:* In a legal opinion, GAO disagreed with a Federal Highway Administration's interpretation of a statute that allowed states to use the proceeds from sales of real property purchased with federal funds for other eligible projects. The Federal Highway Administration interpreted the statute to mean that proceeds from real property sales purchased with federal funds lose their federal character and become state funds. We concluded that the federal government retains its interest in the sale proceeds and, consequently, states may not convert federal money to state money by buying and selling real property.

*Contributing to the Debate on Spectrum Reform:* With the dramatic growth in wireless technologies during the past decade, government users and the commercial sector are competing more intensely for access to the radio frequency spectrum to meet needs for national defense, public safety, and the general public. In 2002, GAO testified before the Senate Committee on Commerce, Science and Transportation and subsequently reported on problems with the federal government's management of the spectrum. We recommended the development of a clearly defined national spectrum strategy to guide domestic and international spectrum management decision making, actions to address human capital needs in federal spectrum management, and enhanced accountability for federal agencies' use of this limited resource.

*Enhancing Aviation Safety:* In response to a request from the Subcommittee on Aviation, House Committee on Transportation and Infrastructure, GAO reviewed the Federal Aviation Administration's (FAA) implementation of the Pilot Records Improvement Act of 1996. This act responded to seven fatal commercial airline accidents that were attributed, in part, to errors by pilots who had been hired without background checks. Our 2002 report found compliance problems at some airlines. In addition, we pointed out that FAA did not incorporate guidance on the act in its training or handbooks for inspectors. We made recommendations designed to assist

FAA in overseeing the act's implementation and in determining whether carriers have conducted the required background checks before making final pilot hiring decisions.

*Reducing the Federal Aviation Administration's Budget:* GAO assisted the Senate Appropriations Committee, Subcommittee on Transportation, with markups of the Federal Aviation Administration's budget. In briefings, we identified several facilities and equipment projects as candidates for budget reductions. On the basis of our analysis, the House and Senate Appropriations Committees reduced the agency's fiscal 2002 budget by \$99 million.

*Serving as a Catalyst to the Postal Service's Transformation Efforts:* Since we placed the Postal Service's transformation efforts and outlook on our High-Risk List and recommended in April 2001 that the Service develop a transformation plan, much of the public debate in the Congress and among postal stakeholders has focused on such a plan. In April 2002, the Postal Service issued a transformation plan. In response to requests from the Senate Committee on Governmental Affairs, we reported and testified in 2002 on the Service's deteriorating financial situation and highlighted why the Service's primary mission of providing universal postal service is at risk and transformation is needed. We noted that the Service's current business model, which assumes that growing mail volumes and revenues will cover the costs of an expanding infrastructure, is at odds with the decline in mail volumes attributable to several factors, including increased competition and electronic communication alternatives. We identified key transformation issues that need to be addressed, such as the Service's mission and role for the 21st century and possible approaches to addressing these issues.

*Making Key Contributions to Transportation Security:* Drawing on an extensive body of completed work, GAO provided significant background information to a number of committees as the Congress drafted the Aviation and Transportation Security Act. We have also continued to provide the Congress with information on aviation, port, and transit security. For example, in response to requests from House and Senate authorizing committees, we provided timely information on U.S. and foreign-owned screening companies and the capabilities of explosives detection systems and trace devices. We

also provided information on the pros and cons of moving the Transportation Security Administration to the Department of Homeland Security and of arming commercial pilots. Additionally, we testified before the House Subcommittee on National Security that ports present security risks, not only because of the possibility that ships could carry weapons of mass destruction or other hazardous cargoes, but also because of the potential for terrorists to attack cruise ships or petrochemical facilities at or near ports. Finally, we testified before the Senate Committee on Banking, Housing and Urban Affairs on the challenges that transit agencies face in making their systems secure. These challenges include the systems' accessibility and high ridership, the high cost of security improvements, and the need to coordinate security concerns among federal, state, and local government agencies and private sector companies.

*Aiding in Deliberations on New Surface Transportation Legislation:* Responding to requests from authorizing committees, GAO provided information in testimonies and reports to the Congress as it prepared to reauthorize surface transportation programs. In 2002, GAO identified major challenges in surface and maritime transportation systems, reviewed the Departments of Treasury's and Transportation's procedures for projecting receipts for the

highway account of the Highway Trust Fund over the next authorization period and beyond, and identified alternative approaches to funding investments in surface transportation. In addition, our work on highway research provided assistance to a Senate authorizing committee in drafting new legislation.

*Improving Federal Real Property Management:* In a number of reports and testimonies for the House Committees on Transportation and Infrastructure and Government Reform and the Senate Committee on Governmental Affairs, GAO identified problems with and made recommendations to improve the management, acquisition, maintenance, protection, usage, and disposal of federal real property. The Congress considered legislation related to this work that would have given federal agencies more management tools, such as the ability to enter into public/private partnerships to better use and maintain their facilities. The General Services Administration made significant progress in 2002 toward pursuing all available alternatives to deal more expeditiously with deteriorated and underused buildings and to improve the quality of the data it uses in its reports. Finally, we made recommendations to strengthen building security and informed the Congress of issues to be considered in deliberations on establishing a Department of Homeland Security.

## 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*

### Respond to Diffuse Threats to National and Global Security

#### *Progress Made in Unifying Homeland Security Efforts:*

The federal government has taken important first steps to unify the efforts of all levels of government and the private sector with regard to homeland security. As GAO recommended in reports from 1997 to 2002, the federal government has established a focal point for combating terrorism (the Office of Homeland Security), developed a plan for countering terrorism, implemented risk management to enhance security at certain federal departments, and defined key terms such as “homeland security” and included the definitions in the National Strategy for Homeland Security. These actions will promote leadership among the many entities involved in homeland security and help to ensure that their efforts are mutually reinforcing and that they are using resources efficiently.

#### *Evaluating DOD’s Chemical and Biological Defense Program:*

In response to congressional concern, GAO has been increasing its review efforts on the status and progress of the Department of Defense’s (DOD) Chemical and Biological Defense Program and military service readiness in this area. GAO’s reports have identified problems and recommended a number of corrective actions, particularly in areas such as chemical and biological defense equipment and training, unit readiness reporting, program organization, and command emphasis and leadership. DOD has concurred with the vast majority of GAO’s recommendations and is presently working on several major initiatives to resolve identified problems and make program improvements. These initiatives have resulted in savings of approximately \$2 million during fiscal 2002.



Source: See Image Sources.

#### *Improving Department of Defense Force Protection Efforts:*

At the request of two congressional committees, GAO is continuing to evaluate the approach taken by each military service to protect military personnel, equipment, and capabilities from terrorist attacks and is examining the protection measures taken at domestic and overseas ports used for military deployments. In a collaborative effort, GAO worked with the Department of Defense to identify and implement changes needed to improve the effectiveness of the department’s force protection approach. This year, as a result of GAO recommendations, the department took steps to (1) improve its threat assessment methodology, (2) develop a departmentwide antiterrorism/force protection strategy, and (3) consistently apply risk management principles to prioritize requirements.

#### *Upgrading U.S. Export Controls on Sensitive Technologies:*

GAO’s many reviews of U.S. export control laws and programs have contributed to the congressional debate over how to revamp the current system and prevent sensitive technologies from falling into the hands of terrorists or states that support them. Among the improvements needed, GAO noted better justification for loosening controls over high-performance computers, better monitoring of the recipients of sensitive technologies, and greater information-sharing among supplier countries that export sensitive technologies. GAO’s reports and testimonies have helped the Congress understand the weaknesses in the current process of controlling sensitive technology exports and how proposed changes to the Export Administration Act will affect

the delicate balance between protecting our national security and promoting U.S. economic interests.

*Helping Reduce Risks Involving Information Security:* GAO has identified information security as a governmentwide high-risk area, and its ongoing work identifying information security vulnerabilities has helped mitigate risks to critical federal operations/assets and improve the government's ability to respond to cyber attacks and intrusions. Improvements stemming from recommendations in prior years' audits and recent follow-up work included actions by the Departments of Commerce, Defense, Interior, Education, and Veterans Affairs. Further, GAO's recommendations during fiscal 2002 prompted new actions at the Departments of Defense and Treasury and at the Federal Deposit Insurance Corporation to strengthen information security for protecting sensitive data from unauthorized disclosure, modification, and loss.

*Focusing on Information Security As a Critical Element of National Preparedness:* In the aftermath of the September 11, 2001, attacks, GAO assessed governmentwide progress in implementing critical infrastructure protection efforts, including (1) a discussion of related challenges facing the proposed Department of Homeland Security, (2) an analysis of the numerous organizations involved in protecting the nation's computer-based infrastructure, and (3) an identification of information-sharing practices that can benefit critical infrastructure protection. GAO's reports and testimonies detailed the growing array of threats, including cyber-terrorism, and related risks to our increasingly computer-dependent infrastructures, such as electric power, telecommunications, and key government services. In addition, GAO's products identified shortfalls and recommended solutions pertaining to the ability of the government to analyze threats effectively, respond to potentially damaging incidents, and work with the private sector to implement comprehensive risk-reduction measures.

*Protecting the Public from Nuclear Terrorism:* The United States has spent over \$5 billion to prevent the transfer of nuclear material and scientific expertise that could be used to develop a nuclear bomb or a radiological weapon from Russia and other states of the former Soviet Union to terrorists or countries of concern. Because of our work, the fed-

eral agencies involved have (1) begun to develop an overall plan to coordinate their international efforts, (2) consolidated programs to better target limited resources, (3) focused on ensuring that security improvements are sustained by the host countries, (4) decided to upgrade radiation detection equipment already installed and establish minimum standards for new installations, and (5) begun to develop a strategic plan for installing nuclear detection equipment on U.S. borders.

*Testing the Security of Federal Buildings:* In a test of the adequacy of security measures in federal offices around the country, GAO investigators breached the security of four federal office buildings in the Atlanta area. Using fictitious law enforcement credentials and a pretext for their presence, agents were able to enter the buildings without proper authority, carrying a briefcase or package and bypassing magnetometers and x-ray machines. They moved freely throughout the facilities during day and evening hours. As a result of this test, GSA strengthened its process for verifying credentials and identification and issued guidance and recommendations for security operations at GSA-managed facilities throughout the country.

### **Ensure Military Capabilities and Readiness**

*Promoting a Clearer Understanding of Gulf War Illness:* Since the mid-1990s, GAO has given visibility to ongoing privately funded research into the nature and causes of Gulf War Illness and the methodological obstacles faced by researchers. Early research sponsored by the Department of Defense emphasized stress as a potential causal factor in Gulf War veterans' illnesses; however, privately funded research augmented this with the investigation of a range of physical exposures, including chemical agents. One result of our attention to this issue has been DOD's growing acceptance of alternative views on the nature and causes of Gulf War Illness.

*More Efficient Use of In-orbit Satellite Capabilities:* In 1998, GAO reviewed DOD's development of the Space-Based Infrared System (SBIRS), under which the launch of the first SBIRS satellite was planned for fiscal 2002. We reported that implementing this plan would put eight excess satellites in orbit without providing sufficient ground processing capabilities for the data the satellites generated. We recommended that the Secretary of Defense review and assess launch alternatives. As a result, DOD



delayed the launch of the first SBIRS satellite from fiscal 2002 to fiscal 2004 and subsequently delayed other such launches. These delays, which allow DOD to use existing satellites until the end of their expected lives and avoid 8 years of excess satellite capability, saved about \$702 million in satellite costs.

*Reducing Risks in F/A-22 Aircraft Program:* In a March 2002 mandated report, GAO recommended limiting production in the Air Force's F/A-22 aircraft program until operational testing is complete to minimize the risks of producing large quantities of aircraft that may require costly modifications. We reported the extent of the delay to development testing and predicted how this delay would likely further affect subsequent operational testing and thus increase program risks. Our analysis helped the House Appropriations Committee include language in the Fiscal Year 2003 Defense Appropriation Act to delay funding for seven F/A-22 production aircraft until DOD completes a formal risk assessment. This assessment will identify the potential cost, technical, schedule, or other risks resulting from increased F/A-22 production quantities prior to the conclusion of operational testing.

*Delaying Full-Rate Production of the V-22:* In January 2001, GAO briefed the Secretary of Defense's V-22 Blue Ribbon Panel about our findings on the aircraft. The Blue Ribbon Panel was formed to investigate the V-22 after a fatal crash in December 2000, just prior to the aircraft's planned full-rate production. The panel received information from GAO about reductions in development testing, test waivers, deficiencies identified during operational tests, and results of an earlier April 2000 crash investigation that also involved fatalities. Much of the information in our briefing about the V-22 had not been previously disclosed. The panel used the information to support its position that the V-22 was not ready for full-rate production and that only a minimum production rate should be continued during additional testing and evaluation of the aircraft. The Congress subsequently rescinded \$446.5 million from the fiscal 2001 supplement request and reduced the fiscal 2002 request by \$296.3 million. The net present value of the two actions is \$763.8 million.

*Reducing the Risk of Major Weapon System Acquisitions:* Since 1998, GAO's work on best commercial practices has shown that maturing key technologies before they were included in new product development was a key factor in successful programs. We also reported on a technique—technology readiness levels—that accurately gauges the maturity of technology. The Department of Defense agreed, making technology maturity a key factor in determining whether new programs should be started and endorsing use of technology readiness levels. We have since applied technology readiness levels in our assessments of several major weapon system programs, leading to recommendations on how changes in the programs could avert costly and time-consuming problems. Citing GAO's work on best practices, the Senate added its support for technology maturity through a provision to the Defense Authorization Act for Fiscal Year 2002 requiring that critical technologies be successfully demonstrated before they are incorporated into a major defense acquisition program.

*Improving DOD's Major Weapon System Acquisition Process:* GAO issued a report in fiscal 2002 that identified best practices for capturing knowledge about a product's design and manufacturing at critical points during its development, thereby reducing cost and schedule risk. On the basis of our analysis, we concluded that DOD could achieve better outcomes from its acquisition programs by ensuring that knowledge is captured at key decision points. We recommended that DOD require specific information as exit criteria at these key points during product development and require the program manager to document that information. We also recommended that DOD structure its contracts for major weapon system acquisitions to provide incentives to the contractor to capture knowledge by making such information the basis for continuing the program. DOD accepted our recommendations, endorsed the use of these best practices, and wrote several of them into its newly revised acquisition policy. If DOD successfully applies this policy to individual weapon system programs, it will enable better design and production decisions and will lessen the likelihood of unanticipated cost and schedule increases.

*Senate Defers Procurement of Second Special Operations Mini Submarine:* GAO's 2002 mandated review of the Special Operations Command's

Advanced Sea, Air, and Land Delivery System identified significant problems with the first mini submarine's performance, cost, and schedule. Our analysis showed that if the problems were not resolved, they could lead to additional cost, schedule delays, and an inability to meet program objectives. In May 2002, citing GAO's analysis, the Senate reduced the Special Operation Command's fiscal 2003 budget request, canceling funds for a second mini submarine until the problems with the first submarine are resolved. In August 2002, the Department of Defense agreed, and the program is being restructured to ensure that the first mini submarine is fully operational and meets the user's requirements before procuring additional vehicles.

*Ensuring Contingency Funds Are Spent Properly:* Since 1991, the Department of Defense has spent more than \$25 billion in support of military operations in the Balkans and the Persian Gulf. In assessing DOD's use of contingency operations funds in fiscal 2000 and 2001, we identified millions of dollars in questionable expenditures resulting from limited guidance and oversight combined with a lack of cost consciousness. In responding to our findings, the Congress reduced DOD funding for those operations by \$650 million in fiscal 2002. In commenting on our report, DOD also stated its intention to improve its guidance for and oversight over the use of contingency funds.

*Assisting in Decisions on Funding for Military Operations:* The Congress appropriated more than \$10 billion in support of ongoing military operations in fiscal 2002, including those to combat terrorism and to support peacekeeping in the Balkans and the Persian Gulf. In a series of briefings for the Senate Appropriations Committee, GAO provided information on costs incurred to date for these operations, likely future costs, the adequacy of funds appropriated to support the operations, and the actual expenditures made with these funds. GAO also issued reports in May 2002 and September 2002 on the expenditure of such appropriated funds and funding needs in the Balkans, respectively. The committee used GAO's information in deciding on appropriations levels for these operations.

*Improving the Management of DOD's Privatization of Military Family Housing:* During fiscal 2002, we issued a report and briefed congressional staff several times on areas where DOD could improve the

management of its privatization of military family housing. We reported that privatization projects were not supported by reliable needs assessments and that the overall requirement for military housing was not well defined. We concluded that the military might be entering into unnecessary, long-term privatization contracts to construct, replace, or renovate housing. Accordingly, we recommended that DOD use a broader range of factors in defining military housing requirements, modify its guidance for performing life-cycle cost analyses, and implement several changes to enhance government protections in the privatization program. DOD generally agreed with the recommendations and has outlined ongoing management actions to address our suggestions. As a result of our report, congressional staff also opened up a dialogue with DOD officials on issues related to privatizing military family housing.

*Contributing to the Military Base Closure and Realignment Process:* Since 1979, GAO has issued a number of reports documenting excess infrastructure within the Department of Defense and supporting the need for a base closure and realignment process. The Congress authorized such a process and enacted legislation requiring us to provide it with a series of reports and testimonies validating DOD's implementation. We monitored and assessed all phases of the decision-making process, including executive-level sessions, for compliance with congressional requirements. In addition, GAO staff assisted commissions that recommended base closures and realignments in 1991, 1993, and 1995. The staff helped shape the commissions' decisions through analyses of issues associated with closing or realigning specific installations. Last year, we reported cost reductions of about \$6 billion associated with our work. Updated DOD data indicate further cost reductions of \$545 million.

*Increasing Use of Excess Property:* GAO reported that \$2.7 billion worth of military property recorded as shipped to disposal offices was never recorded as received, resulting in losses and write-offs of the property from the military services' books and inventory records. GAO recommended changes that avoided the write-offs and kept the items as part of the services' inventory records until the property was actually disposed of. As a result, the inventory was available for use by DOD customers

during the period prior to disposal. For the first 2 years that the changes were in effect, they resulted in savings of \$526 million.

*Improving Military Benefits:* In response to a congressional request, GAO assessed the military benefits package provided to active duty members and their dependents. We noted in both our testimony and report that the military offered all the core benefits extended by most private sector firms, including health care, paid time off, life insurance, and retirement pay. Furthermore, military benefits, such as free housing, free health care for members, and discount shopping at commissaries and exchanges, may exceed private sector benefits. We also reported that although military benefits have generally kept pace with the demographic changes in the active duty force, there are opportunities for improvement. We recommended that DOD (1) develop measures for tracking and assessing the effectiveness of the employment assistance services offered to military spouses at military installations and (2) assess the feasibility, costs, and benefits of offering extended time off to new parents as a way to increase retention of trained, experienced personnel.

*Relations between Reservists and Their Employers:* GAO reported in June 2002 that despite increases in military operations since 1992, the average operational tempo (the total days reservists spend participating in normal drills, training, exercises, and domestic and operational missions) DOD-wide increased only slightly between 1992 and 2001—from 43 days to 46 days a year. However, reservists in certain units or occupations, such as those in aviation, special forces, security, and civil affairs, experienced operational tempos two to seven times higher than those of other reservists. Among our findings on the department's outreach efforts to reservists' employers, we found that DOD lacks information on who reservists' employers are, and it views the Privacy Act as a constraint that prevents it from requiring reservists to provide this information. We also found that although approximately one-third of reservists are students, DOD does not have an active program in place to address problems that may arise between student reservists and their educational institutions. We made, and DOD agreed with, several recommendations designed to address these and other problems we identified during the course of our study.

*Managing Encroachment on Military Training Ranges:* During fiscal 2002, we issued two reports and testified on the constraints that encroachment (the cumulative effect of outside influences that inhibit military training and testing) places on training in the continental United States and overseas. We recommended executive action that requires the Department of Defense to finalize a comprehensive plan for managing encroachment issues, develop the ability to report critical encroachment-related training problems, and develop and maintain inventories of its training infrastructure and quantify its training requirements. DOD agreed with and has initiated actions to implement our recommendations. Our work also supported the House Committee on Government Reform's hearings on the effects of encroachment on military training and readiness and the congressional deliberations on DOD's appropriations for fiscal 2003.

*Adjusting Department of Defense Funding:* GAO reviewed the reasonableness of DOD's budget requests for fiscal 2002 to assist subcommittees in their appropriation and authorization deliberations. On the basis of GAO's findings, the Congress adjusted DOD's budget request by about \$2.1 billion. Specifically, the Congress adjusted (1) the military personnel request by almost \$600 million; (2) the operations and maintenance request by about \$1 billion; and (3) the procurement and research, development, test, and evaluation request by \$539 million. Also, the Congress rescinded about \$562 million from DOD's fiscal 2001 funds for DOD's supplemental appropriation. In addition, during internal DOD budget deliberations, DOD officials reduced the agency's foreign currency exchange estimates by \$1.5 billion for fiscal 2002 and 2003. These adjustments did not affect readiness, and the Congress used the adjusted funds for other needs.

*Assessing the Army's Transformation Efforts:* GAO issued two reports assessing the Army's transformation efforts. Our report on the Army's Transformation Campaign Plan identified six challenges the Army faces as it manages transformation over the next 30 years: technology, schedule, acquisitions, operations, human capital, and funding. DOD concurred with the findings and stated that it will continue to address these challenges as it attempts to maintain timeliness. Our second report evaluated the Army's formation of the first two of the six planned Interim Brigade Combat Teams. The

report outlined challenges to logistical support planning and shortfalls in combat capability that the Army is facing as it forms the teams. We made recommendations designed to assist the Army in overcoming these challenges. DOD generally concurred with the findings, and the Army began to take action to implement the recommendations.

*Improving Equipment Maintenance Practices:*

GAO's reviews of maintenance programs in each of the military services supported congressional oversight of these issues and led to management actions by DOD to improve its depot maintenance operations. As we had recommended, the Air Force developed and provided to the Congress a depot maintenance strategic plan that, among other things, addressed human capital and facilities recapitalization needs. Using a strategic approach is key to ensuring that necessary repair capabilities are available to meet the Air Force's needs. Our review of the Army workload and performance system resulted in improvements that have increased the quality of the maintenance information available to Army depot managers, providing them with the means to improve the efficiency and effectiveness of depot maintenance operations. Further, as a result of our recommendation, DOD implemented policy guidance to improve the management of public-private depot maintenance partnerships.

*Improving Accountability Over Defense Inventory:*

In response to various congressional requests, GAO issued several reports on DOD's inventory management practices, which resulted in management improvements and enhanced congressional oversight. As a result of our recommendations, the Army has significantly enhanced inventory management and integrated the wholesale and retail supply systems to create a single system, which the Army calls the single stock fund. The creation of a single stock fund has allowed the Army to consolidate redundant inventory and reduce customer wait time, and it is expected to result in savings of over \$1 billion. GAO also found that the Navy's Product Quality Deficiency Reporting Program was largely ineffective in gathering data needed for analyses. Without these data, managers lost opportunities to initiate important corrective and preventive actions with suppliers. To correct these weaknesses, GAO recommended that the Navy take steps to increase the level of training, incentives, management emphasis, and results reporting as necessary to

improve program effectiveness. Subsequently, the Navy took actions to report premature parts failures as quality deficiencies.

*Improving Operations at the National Nuclear Security Administration:* Through a series of reports and testimonies, the first of which were issued in 2001, GAO has monitored the start-up of the National Nuclear Security Administration (NNSA), a separately organized entity within the Department of Energy (DOE). The Congress created NNSA to correct long-standing management and security problems at DOE. At the time of NNSA's creation, the House Armed Services Committee established a special panel to oversee NNSA. We have provided the panel with briefings, testimonies, and reports on the problems NNSA has experienced in developing, as its implementing legislation requires, effective planning, budgeting, and organizational approaches. Our work has contributed to language in NNSA's appropriations and authorization acts requiring improved operations and has led NNSA to implement some of our recommendations for improving its organization.

**Advance and Protect U.S. International Interests**

*Adopting Standard State Department Embassy Construction Project Designs:* For several years, GAO has encouraged the State Department, through improved planning, to exercise better control over the cost of new embassies it constructs overseas. To reduce costs and construction time, GAO strongly encouraged State to use standard designs for its new embassy construction projects. In 2001, State took several actions to improve planning and hold down construction costs, including the use of standard size and design criteria. Using this approach, State adopted three size and cost categories for its construction projects and was able to reduce the cost of six construction projects in late 2001. As a result, the expected costs for these projects were reduced by more than \$90 million.

*Enhancing the Disposal and Sale of Overseas Property:* GAO's work concerning the State Department's responsibility for managing overseas property showed that (1) State's property inventory contained inaccuracies that could prevent it from identifying and selling some unneeded properties and (2) the 2001 Agriculture Appropriations Act restricted State's authority to sell some valuable properties.

Regarding State's overseas property inventory, we recommended that the department improve its accuracy, and State agreed. Regarding the 2001 Agriculture Appropriations Act, we suggested that the Congress consider repealing the requirement that State obtain approval from the Foreign Agricultural Service before selling agricultural attaché residences and use the sales proceeds to purchase new attaché residences. The Congress repealed these restrictions in September 2002, clearing the way for State to proceed with the sale of several valuable unneeded properties. Increased sales of unneeded overseas property reduces the cost of U.S. diplomatic and consular operations in foreign countries and provides funds for acquiring new property and capital construction projects, such as building secure embassies.

*Supporting Embassy Rightsizing Initiatives:* GAO prepared a rightsizing framework, which the Office of Management and Budget is now using to assess staffing levels at U.S. embassies in Europe and Eurasia. We reported that such a systematic framework could aid executive branch efforts to have the right number of staff in overseas posts and recommended that the Office of Management and Budget use this framework to assess overseas posts' staffing levels. As a result of our report, the Office of Management and Budget sent a questionnaire to U.S. diplomatic posts in Europe and Eurasia to assess staffing levels. This effort should help achieve a more efficient allocation of limited overseas staffing resources and reduce operating costs.

*Improving Human Capital Management:* GAO examined the State Department's process for and performance in assigning staff to hardship posts where employees experience a variety of adverse living conditions. State's assignment system is not effectively meeting the staffing needs at these posts. As a result, diplomatic readiness could be at risk at posts that are of significant importance to the United States, such as those in China, Saudi Arabia, and Ukraine. We recommended that State improve its human resources data, determine staffing priorities, consider a target hiring strategy, and develop incentives and implement actions to steer Foreign Service employees toward serving in hardship posts. In response, State has indicated that the department is expanding its information management system to improve its personnel and assignment data, filling positions in hardship posts first,

and examining the legal basis and potential financial impact of possible incentives and initiatives. Since we issued our report, the Director-General of the Foreign Service has made the staffing of hardship posts a top priority.

*Improving Language Skills in Key Federal Agencies:* GAO's reports and testimony on problems with foreign language skills in federal agencies have focused congressional attention on a critical gap in the nation's fight against international terrorism, drug trafficking, and gang violence. Federal agencies have critical shortfalls in the numbers of Arabic, Chinese, Korean, and Russian interpreters and linguists on their staffs. The Federal Bureau of Investigation has thousands of hours of audiotape and thousands of pages of written material that have not been translated. Our reports analyzed the nature and extent of foreign language shortages, the strategies four federal agencies used to address shortages, and the agencies' efforts to implement an overall strategic workforce plan to address current and projected shortages. Numerous congressional committees have cited our work frequently as they considered strategies to prepare the federal workforce for the complex intelligence and foreign affairs challenges the nation faces.

*Redirecting Development Assistance Program Funds:* During 2001, GAO examined the U.S. Agency for International Development's (USAID) efforts in Colombia to provide growers of illicit crops a legal means to earn a living—generally called “alternative development.” Colombia accounts for 90 percent of the cocaine entering the United States and approximately two-thirds of the heroin available on the East Coast. We found that the alternative development program in Colombia was not likely to achieve success until, at a minimum, the Colombian government could provide security in the illicit crop-growing areas, provide safe access to project sites, and attract the private investment needed for long-term development. We recommended that USAID modify its plans and spending proposals to better reflect the extreme difficulty in gaining access to the illicit crop-growing regions. In December 2001, on the basis of our findings and recommendation, USAID suspended its \$31.7 million alternative development program in Colombia and began revising its approach. As a result, USAID halted its largely agricultural program and reoriented its efforts to emphasize social infra-

structure and other projects that are not as dependent on security. USAID also initiated alternative development projects in areas where the security situation was more favorable. By making these adjustments, USAID redirected over \$30 million to activities and areas of Colombia that offered a greater likelihood of success.

*Improving the Delivery of Disaster Recovery Assistance:* GAO evaluated \$621 million in emergency supplemental funding appropriated in May 1999 for countries affected by Hurricanes Mitch and Georges. As a result of our observations, among other things, the quality of rural road projects improved, an abandoned rural health clinic was staffed and made operational, new latrines were built for a school, and an agricultural project received an irrigation component. Also, two other U.S. government agencies supporting the recovery effort modified their programs to meet reconstruction needs, and one agency returned unused funds to the Treasury. In July 2002, GAO recommended several actions for USAID that will help ensure that it has the flexibility needed to better respond to similar disaster recovery needs, such as in Afghanistan. USAID has begun several reforms in the areas of strategic planning, funding alternatives, and staffing.

*Improving Peace Corps Safety and Security Practices:* GAO found that the Peace Corps' efforts to implement effective safety and security practices have produced mixed results and that a number of factors hamper the agency's efforts to ensure overall high-quality performance, including unclear guidance, staff training that is sometimes inadequate, uneven application of supervision and oversight mechanisms, and staff turnover (due largely to the "5-year rule"—a statutory restriction on tenure for U.S. direct-hire employees). As we completed our review, the Peace Corps announced a series of initiatives that, if effectively implemented, could improve its practices and thus reduce the potential risks facing volunteers. The Peace Corps has (1) developed a protocol for reporting on and reviewing implementation of agency policies, (2) expanded its Government Performance and Results Act reports to include 10 quantifiable performance indicators of safety and security performance, (3) stated that it will continue to update and strengthen these indicators as it gains experience in imple-

menting its safety and security initiatives, and (4) launched a comprehensive review of the effect of the 5-year rule on agency operations.

*Controlling the Illicit Diamond Trade:* Rebel movements in a number of African countries, including those attempting to overthrow legitimate governments, have used diamonds to finance their military activities. GAO's work demonstrated that the ease of transporting and selling diamonds creates opportunities for illicit trade. Specifically, we focused on assessing an effort to develop and implement an international diamond certification scheme to deter diamonds coming from countries subject to United Nations and U.S. sanctions from entering legitimate markets. We recommended that the diamond certification scheme incorporate better internal controls and other accountability activities into its deterrence efforts. Our testimony and report on this issue have contributed to the debate over U.S. legislation and to congressional oversight concerning the U.S. role in the negotiations over the diamond certification scheme.

### **Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests**

*Improving the Management of the Foreign Military Sales Program:* In 1999, GAO reviewed several aspects of the Foreign Military Sales program. We reported that program decisions were not being made on the basis of adequate information and that items controlled by an international missile nonproliferation agreement were not properly reviewed and approved before being transferred to foreign governments. As a result, in fiscal 2002, the Defense Security Cooperation Agency implemented a performance-based budgeting process to obtain sufficient information to enhance program decision making and to add transparency. A process to screen the program's cases for controlled missile items was established, which will prevent unapproved export of controlled missile items.

*Improving U.S. Customs Enforcement of Defense Exports:* In March 2002, GAO reported that U.S. Customs inspectors did not have updated guidance to effectively conduct inspections of defense items subject to U.S. export control restrictions. As a result, in July 2002, U.S. Customs updated its guidance on defense export inspection requirements and is disseminating this guidance to inspectors at

the ports. Inspectors now have the necessary guidance to help ensure that military weapons are exported in compliance with U.S. laws.

*Identifying National Security-Related Foreign Acquisitions:* In a June 2000 report, GAO found that the Departments of Defense, State, and Treasury knew about national security-related foreign acquisitions but did not inform the Committee on Foreign Investment. We recommended that U.S. government agencies improve the process of identifying and reporting acquisitions that may adversely affect national security. To implement our recommendations, the Department of the Treasury initiated procedures to formalize the way the Committee on Foreign Investment shares information among member agencies about national security-related foreign acquisitions. Further, the Departments of Treasury, Commerce, Defense, and State developed procedures to ensure that when they identify national security-related foreign acquisitions, they also provide relevant information to the committee for distribution among all member agencies.

*Reducing Government Contingent Liabilities by Billions:* As part of its plan for the Year 2000 transition, the National Credit Union Central Liquidity Facility (CLF) was allowed to increase the limit on loans to credit unions from about \$2.7 billion to \$20.7 billion. The National Credit Union Administration requested that this higher lending limit be maintained after the Y2K transition. GAO found that, although CLF lending to credit unions did increase during the 3 months before 2000, most credit unions' funding needs were met through corporate credit unions and CLF's own resources, not through the money CLF had borrowed for that period. GAO concluded that there would be no need to increase the lending limit. As a result, the Congress decided to increase CLF's lending limit by only a minimal amount, thereby reducing the government's potential liability.

*Contributing to the Debate on Terrorism Insurance:* In the aftermath of the September 11, 2001, attacks, GAO assessed the changes taking place in the insurance industry, the potential implications of these changes on the economy, and alternative approaches for government assistance to the industry. In October 2001, during testimonies before House and Senate Committees, GAO described alternative government-sponsored insurance pro-

grams used in other countries to cover losses from terrorist or catastrophic events. In February 2002, GAO again testified before the Congress to report that the insurance industry intended to largely exclude coverage for losses resulting from any future terrorist attacks, creating further uncertainty and economic vulnerability in the marketplace. GAO also outlined the desirable features of any government-sponsored program established to help ensure the availability of terrorism insurance coverage in the financial marketplace. The House and Senate used this information in structuring reform proposals.

*Strengthening Oversight of Activities to Detect Money Laundering:* In July 2002, GAO reported that the extent of money laundering through credit card transactions was unknown. The Department of the Treasury used this report in drafting new requirements for credit card system operators under the Provide Appropriate Tools Required to Intercept and Obstruct Terrorism Act. Treasury similarly used GAO's October 2001 report on money laundering in the securities industry to draft and implement regulations requiring securities dealers to file Suspicious Activity Reports. These reports are the principal tool used to detect money laundering. GAO's September 2002 interim report on Internet gambling also contributed to congressional debate on methods of preventing payments to illegal Internet gambling operations.

*Enhancing the Effectiveness of the Securities and Exchange Commission (SEC):* GAO found that SEC's resources had not kept pace with the tremendous growth in securities markets and the increased complexity and international scope of these markets. Since approximately 1996, SEC's workload increased at a much higher rate than its staff years. High staff turnover exacerbated this problem, with staff inexperience contributing to delays in SEC's regulatory process. GAO made numerous short-term and long-term recommendations to shore up weaknesses in SEC operations. Our work contributed to SEC obtaining authorization for additional resources and prompted SEC to review its operations and its resource needs.

*Promoting Use of Electronic Transfers:* In September 2002, at the request of the House Committee on Financial Services, Subcommittee on Oversight and Investigation, GAO reported on Treasury's efforts to

promote the use of electronic fund transfers by federal beneficiaries. On the basis of an analysis of Census Bureau survey data, we determined that the main obstacle in promoting these transfers was the high number of beneficiaries without bank accounts and that Treasury's current efforts were unlikely to overcome this obstacle. We identified alternative approaches to promote the use of electronic fund transfers, especially among those without bank accounts. For example, some banks were allowed to distribute information about bank products or enroll beneficiaries at the local Social Security Administration office. We recommended that Treasury use these approaches to develop a strategy for increasing the use of electronic fund transfers. As a result of GAO's analysis, Treasury is taking positive actions to further use of electronic fund transfers, which could save the government millions.

*Helping Poor Countries Overcome Debt Problems:* GAO's work demonstrated that existing debt relief efforts by the World Bank and the International Monetary Fund were insufficient to solve 42 impoverished countries' (mostly African) debt problems (amounting to more than \$200 billion). In contrast, we determined that the Bush administration's proposal to shift 50 percent of future debt relief from loans to grants would provide significant debt relief to these countries and would be affordable. GAO's findings contradicted the World Bank's, which projected a much higher cost over 40 years—\$100 billion for implementing the President's proposal compared to the \$15.6 billion that we projected. U.S. Treasury officials used our analysis and findings in negotiations with the World Bank and European countries; this resulted in a major shift in World Bank policies that now provide about 20 percent of debt relief in the form of grants.

*Improving U.S. Export Promotion:* GAO's work demonstrated that the effectiveness of coordinating U.S. agencies' activities designed to promote U.S. exports abroad, through efforts such as providing financing and identifying export opportunities, has varied from year to year. GAO recommended that the interagency Trade Promotion Coordinating Committee utilize the U.S. national export strategy

more consistently to make the best use of federal export promotion resources. In addition, we provided the Congress with information on the U.S. Export-Import Bank that improved the transparency of the bank's decision-making process so that the Congress could better perform its oversight function.

*Improving Services to Workers, Firms, and Communities Affected by International Trade:* In response to congressional concern about how job losses associated with international trade affect workers, firms, and communities, GAO prepared four reports and a testimony that examined programs at the Departments of Labor, Commerce, and Treasury. The reports provided comprehensive analyses of benefit use, discussed problems with performance and outcome data, and discussed administrative changes needed to ensure improved program management. In response to our recommendations, these agencies have taken multiple actions to improve program performance and accountability. Members of Congress also frequently cited this body of work as they debated reauthorization of these programs and the granting of trade promotion authority to the President.

*Assessing Progress in Multilateral Trade Negotiations:* In evaluating progress in multilateral trade negotiations, GAO issued two reports and a testimony on efforts to create a Free Trade Area of the Americas (FTAA) and a report on ongoing negotiations in the World Trade Organization. Our work on the FTAA highlighted the challenges that negotiators face, the status of technical negotiations in 12 key areas, and the potential economic effect of a completed FTAA on the United States. Our work on the World Trade Organization negotiations analyzed the factors that led to the launch of the negotiations, identified the most critical milestones that need to be met, and evaluated the most significant obstacles negotiators face. This body of work has provided the Congress with the first comprehensive, objective analyses of the prospects for successful conclusion of both sets of negotiations, which they have been unable to obtain from U.S. trade agencies.



## Strategic Goal 3

*Help Transform the Federal Government's Role and How It Does Business to Meet 21<sup>st</sup> Century Challenges*

### Assess the Implications of the Increased Role of Public and Private Parties in Achieving Federal Objectives

*Assessing the Challenges in Maintaining the Federal-State Fiscal Balance under Welfare Reform:* In a report issued last year, GAO assessed changes to the way states financed programs supporting low-income families after the passage of welfare reform legislation. In that report, we found that California had improperly drawn down about \$1.1 billion from the U.S. Treasury and passed these funds along to its counties. The counties, in turn, deposited the funds into interest-bearing accounts. By distributing these funds to the counties before they were needed, the state was in violation of the Cash Management Improvement Act, which seeks to minimize the time between the transfer of federal funds and disbursement by the grantee or subgrantee. After we reported on this situation, California and the Department of Health and Human Services agreed that the interest earned by the counties would be returned; and as of July 31, 2002, the counties had returned \$90 million in interest payments.

*Improving Implementation of the Paperwork Reduction Act:* The Paperwork Reduction Act prohibits an agency from conducting or sponsoring the collection of information unless the Office of Management and Budget (OMB) approves such a collection. OMB is also required to keep the Congress fully and currently informed about major activities falling under the act. We have reported several times in recent years on the implementation of the act, noting that there are hundreds of violations each year under the act—some of which have continued for years—and that a few agencies account for a disproportionate share of those violations. We said OMB could do more to address these violations and also noted that OMB's report to



Source: See Image Sources.

the Congress for fiscal 2002 did not contain burden-hour or violations data on 12 agencies that had appeared in previous reports. OMB subsequently required federal agencies to provide strategies for eliminating violations and targeted five agencies for special attention. OMB also said that its fiscal 2003 report would include information on the 12 agencies that had been omitted from the previous year's report.

*Improving Civil Penalty Enforcement:* Civil monetary penalties are one way federal agencies enforce federal health, safety, and environmental statutes. In 1996, the Congress amended the Federal Civil Penalties Inflation Adjustment Act and required agencies to adjust their penalties for inflation. GAO examined the implementation of the statute and concluded that certain agencies had not made the required penalty adjustments or had made adjustments that were inconsistent with the requirements of the act. Subsequently, two agencies published new penalty adjustment regulations, and six others indicated that they would do so shortly. Also in 1996, Congress enacted the Small Business Regulatory Enforcement Fairness Act, part of which required agencies to establish a policy or program of penalty relief for small entities (e.g., small businesses and small governments). In February 2001, GAO examined the implementation of that section of the act and concluded that the Congress should require agencies to maintain certain data on enforcement actions and penalty relief to facilitate oversight of the act. In June 2002, the Congress

enacted legislation that required agencies to report information on their small entity enforcement programs to certain congressional committees.

*Helping Improve Emergency Preparedness among the Federal, State, and Local Governments:* By participating in field hearings in 11 cities across the United States this year, GAO provided the Congress with information on the need to effectively partner with state and local governments (the “first responders”) to improve emergency preparedness and strengthen homeland security. At these hearings, GAO reported on the need to clarify the appropriate roles and responsibilities within and between the levels of government; the lack of national performance goals and measures for preparedness; and the importance of using the right policy tools—grants, regulations, or tax incentives—to target areas of highest need and greatest risk.

### **Assess the Government’s Human Capital and Other Capacity for Serving the Public**

*Assessing the Implications of Applying Biometric Technologies to Border Security:* In fiscal 2002, Congress asked GAO to conduct a technology assessment pilot and examine the implications of using biometric technologies for border security. This assessment became immediately significant because recent legislation, such as the Provide Appropriate Tools Required to Intercept and Obstruct Terrorism Act and the Enhanced Border Security and Visa Entry Reform Act, requires the use of biometric identifiers along America’s borders by 2004. Passports, visas, and other tools used to track and control the flow of people during “border crossing events” will incorporate biometric technologies, such as fingerprint recognition, facial recognition, or iris recognition. Our research points out that the existing biometric technologies have not yet been used at a scale comparable to the U.S. border control system and that the price tag for a biometrics-based system could be significant. We identified the need for high-level policy decisions, such as defining the specific uses of biometrics technologies and performing a cost benefit analysis that weighs the effectiveness and security benefits of biometrics versus the resource costs and probable consequences of implementation, including the effects on the economy, privacy, travel, and international relations.

*DOD Expands Efforts to Control Contract Overpayments:* GAO issued a number of reports highlighting the hundreds of millions of dollars that DOD overpaid its contractors each year. In response, DOD added a provision to the Federal Acquisition Regulation requiring contractors to notify the government when the contractor sees an overpayment, the Defense Contract Audit Agency launched special audits of contractor billing systems, and the Defense Contract Management Agency alerted its staff of high-risk situations so overpayments could be avoided. Collectively, these actions will help DOD address its longstanding and chronic payment problems.

*Improving DOD’s Acquisition of Services:* DOD is the largest purchaser of services—including professional, administrative, and management support services; engineering services; and information technology services—in the federal government, but GAO found that the department’s spending on these purchases was not managed effectively. In January 2002, we recommended that DOD evaluate how a strategic reengineering approach—similar to that employed by leading companies—could be used as a framework to guide the department’s reengineering efforts. In response, in May 2002, DOD issued new policy that called for taking a more strategic approach to services acquisition and elevated the importance of major purchases of services to the same level as purchases of major defense systems. This action should help improve acquisition and result in significant financial savings.

*Contributing to Improved Contracting Practices:* GAO’s July 2002 report addressing governmentwide acquisition contracts was the first across-the-board look at these relatively new contracting mechanisms, in which agencies use contracts and acquisition services offered by other agencies and pay a fee for these services. As a result of our analysis, two agencies have already taken actions to improve their financial reporting, and OMB has changed its guidance governing the use of such contracts. In addition, we found that the GSA schedule program’s fee structure generated excess revenues amounting to \$151 million for fiscal 1999-2001. As a result, GSA agreed that it needs to revise its fee structure.

*D.C. Public Schools Modernization Program:* In two reports and a testimony in 2001 and 2002, GAO reported on numerous contracting problems in the District of Columbia Public Schools and the lack of realistic cost, schedule, and budget assumptions in the District's plan to modernize all public schools over the next 10 to 15 years. Our warning that the school system must deal with a modernization program that will cost significantly more and take longer to accomplish than originally planned contributed to a public debate that has led the school system to reassess its modernization plans in light of the District's budget constraints.

*Improving the Sourcing Decisions of the Federal Government:* In response to a statutory mandate, the Comptroller General convened the Commercial Activities Panel to review the government's policies and procedures for deciding whether commercially available services should be performed by federal employees or by the private sector. The panel, which included senior officials from government agencies, federal labor unions, contractor groups, and academia, issued its report to the Congress in April 2002, unanimously adopting a set of principles to guide the government's sourcing policies. The panel used these principles to craft a package of specific recommendations designed to improve the way federal agencies make sourcing decisions. The Office of Management and Budget is revising the government's sourcing procedures based largely on the panel's recommendations.

*GAO Issues Standard to Increase Auditor Independence:* This year, GAO significantly modified the Government Auditing Standards related to auditor independence to help protect the public interest and ensure public confidence in the independence of auditors of government financial statements, programs, and operations, and of organizations receiving federal financial assistance. This new standard, which the Comptroller General has characterized as "tough, but fair...to protect the public and insure the credibility of the auditing profession," specifies that it is inappropriate for the entity performing the financial statement audit to also perform certain consulting or other nonaudit services that could be considered to be managerial in nature or perceived as the auditor auditing his or her own work. The Comptroller General and GAO staff have launched an intensive outreach effort to the audit community to enhance understanding and acceptance of the

new standard. In July 2002, we issued detailed questions and answers that offers concrete illustrations of what does and does not meet the standard and makes clear that auditors are to be independent in both fact and appearance.

*Helping Congress Improve Corporate Governance and Accountability:* Building on prior work in corporate governance, GAO was well positioned to respond when the Congress asked for help protecting the interests of American investors and workers in light of recent disclosures of financial irregularities at companies such as Enron and WorldCom. In quick order, GAO's testimonies and reports framed the issues for strengthening oversight of the accounting profession; auditor independence; financial reporting; and corporate governance functions, including fundamental principles for reform. These testimonies and reports provided the foundation for the July 2002 passage of the Sarbanes-Oxley Act. The act, the most far-reaching overhaul of the nation's business practices since the Great Depression, is aimed at tightening oversight of accountants, revamping securities laws, and imposing tougher penalties for corporate fraud after disclosures of irregularities.

*Accelerating Financial Management Reform:* During the past year, the Comptroller General, as chair of the Joint Financial Management Improvement Program (JFMIP), initiated a series of sessions at which the JFMIP principals (the Comptroller General, along with the heads of Treasury, OMB, and OPM) agreed on financial management approaches for transforming the way government does business. They focused on restructuring the Federal Accounting Standards Advisory Board to allow more public input, establishing audit committees, defining what constitutes successful financial management, addressing impediments to an audit opinion on the U.S. government's financial statements, and accelerating agency financial statement reporting.

*Improving Veterans Affairs' Information Technology (IT) Management:* GAO's oversight at the Department of Veterans Affairs (VA) has helped to strengthen management and accountability for the more than \$1 billion spent annually on the department's IT program. In response to our recommendations, the department established the position and selected a permanent chief information officer

to oversee its IT program and developed an initial version of its enterprise architecture for guiding the department's IT investments. Further, our work highlighting the need for VA to restructure information technology functions, programs, and funding under the department-level chief information officer has helped to strengthen accountability over IT investments.

*Leveraging Technology to Make Government Information More Accessible:* GAO reviewed the current status and implementation challenges associated with the Extensible Markup Language, an Internet-based technology that promises to make it much easier for government agencies to organize and exchange information that may initially be dispersed among different systems and organizations. GAO's report was widely publicized in the information technology community and sparked debate among federal officials about the next steps in advancing adoption of the technology. Efforts are under way to implement a key GAO recommendation regarding establishment of an electronic registry of government Extensible Markup Language data definitions and structures.

*Informing Congress about a Major Satellite Program:* In July 2002, GAO testified on various aspects of a major polar-orbiting satellite acquisition program—the National Polar-orbiting Operational Environmental Satellite System—a tri-agency program that is jointly managed by the National Oceanic and Atmospheric Administration, the Department of Defense, and the National Aeronautics and Space Administration. We reported on the nation's current polar-orbiting weather satellite program, plans for the future satellite acquisition, and key challenges in managing future satellite data volumes. Our analysis helped the Congress understand the scope and challenges of this planned \$6.5 billion program and led to increased coordination among the key agencies to address data management challenges.

*Facilitating the Transition to E-Government:* GAO helped the Congress reach a balanced view of the complex management and technical challenges involved in the transition to e-government and development of key tools. For example, as the government's FirstGov Web portal was being introduced, GAO identified steps needed to enhance and maintain the government's new "electronic connection" with citizens and threw the spotlight on

important challenges to overcome in protecting FirstGov's sensitive Web-linked data. Similarly, GAO's detailed look into emerging technologies, such as public key infrastructure, identified potential opportunities for the government's use of this powerful new technology for digitally signing and securely transmitting electronic messages and data.

*Helping to Advance Major Information Technology Modernizations:* GAO's ongoing work has helped to strengthen the management of complex, multibillion-dollar information technology modernization programs at the Internal Revenue Service (IRS) and the Customs Service to improve operations, promote better service, and reduce costs. For example, our constructive engagement with IRS on its \$2.5 billion systems modernization program contributed to the development of enterprise architecture to guide and constrain the acquisition and deployment of information technology systems, ensuring that they operate together properly, thus avoiding expensive rework. Similarly, Customs is following our recommendations to better align its ongoing modernization program with its enterprise architecture, as well as to improve cost estimating, human capital capacity, and software process maturity.

*Effectively Managing and Archiving Electronic Records:* Agencies are increasingly moving to an operational environment in which electronic records provide comprehensive documentation of their activities and business processes—a transformation that has created a new challenge to manage and preserve a vast and rapidly growing volume of electronic records. Working with the National Archives and Records Administration and with selected agencies, GAO identified key weaknesses in federal records management policies; evaluated the Archives' electronic records management and archival practices; and assessed its capability to design, acquire, and manage an advanced electronic record archive system. Our work in the electronic records management area has helped to set the stage for a reassessment of federal electronic record keeping and provided safeguards for the multimillion-dollar acquisition of the proposed electronic record archive system.

*Consolidation Initiatives at Department of Defense Computer Centers Result in Substantial Savings:* GAO recommended that DOD deploy cost savings measures such as consolidation, modernization, and

outsourcing of computer center activities and processes to make computer center operations more economical and efficient. As a result, the Defense Information Systems Agency—the agency responsible for managing Defense Enterprise Computing Centers—undertook a major DOD project that led to savings or cost avoidance over a 4-year period covering fiscal 1998 through 2001. More specifically, DOD estimated savings or cost avoidances of \$700 million from consolidation initiatives at computer centers, \$39 million from consolidating software licenses, and \$19 million from optimization of storage capabilities. The net present value of the estimated financial benefit is \$859 million.

*Facilitating Financial Management Improvements at DOD:* GAO helped craft legislation allocating resources to correct deficiencies in DOD's financial management systems. These resources would otherwise have been used to produce financial statements that were not auditable. DOD was incurring significant costs in producing annual financial statements that were unreliable because of deficiencies in its financial management systems. Legislation drafted by GAO—Section 1008(b) of the National Defense Authorization Act for Fiscal Year 2002—frees DOD of the responsibility of preparing financial statements and directs DOD to use resources saved from not preparing the statements to correct the deficiencies in its financial management systems.

*Facilitating Financial Management Improvements:* GAO drafted legislation for both House and Senate Subcommittees on Legislative Appropriations that strengthened and improved the financial management infrastructures of the Architect of the Capitol and the U.S. Capitol Police. Language in the Legislative Branch Appropriations Act of 2002 requires the Architect of the Capitol to develop and maintain an accounting and financial management system that complies with federal accounting standards, including financial reporting and internal controls. Additionally, both House and Senate bills for the fiscal 2003 Legislative Appropriations Act improve the Capitol Police financial management by naming the Chief of the Capitol Police as the single disbursing officer for that agency and by eliminating its current inefficient dual pay system.

*Addressing Human Capital Issues in the Nation's Air Traffic Control System:* Responding to a request from the Subcommittee on Aviation, House Committee on Transportation and Infrastructure, GAO reported in 2002 on a looming human capital crisis at the Federal Aviation Administration. Thousands of air traffic controllers, who were hired in the early 1980s to replace striking controllers who had been fired, will soon become eligible to retire. The agency adjusted its hiring plans and has begun improving equipment at its training academy.

*Ensuring a Cost-Effective Census:* Beginning in 2001, GAO initiated a series of congressionally requested reviews of the lessons learned from the 2000 Census to help improve the cost-effectiveness of the next national headcount, for which planning is already under way. This past year, GAO's recommendations led to operational improvements that could produce more accurate data and help control costs. For example, GAO's review of the Census Bureau's field data collection activities prompted the bureau to develop more rigorous quality assurance procedures, while GAO's analysis of the Census Bureau's budget identified savings of \$93 million and helped make the bureau more financially accountable.

*Making Strategic Human Capital a Management Priority:* In March 2002, GAO issued a special publication identifying critical success factors that help high-performing organizations align their human capital management with mission accomplishment. The model highlights the importance of a sustained commitment by agency leaders to maximize the value of their human capital and manage related risks. Since releasing the model, GAO has been working with the Office of Personnel Management and the Office of Management and Budget to revise the human capital Standards for Success as part of the President's Management Agenda and to explore other opportunities for developing more consistent guidance and tools for agencies to use to address their human capital challenges.

**Support Congressional Oversight of the Federal Government's Progress Toward Being More Results-Oriented, Accountable, and Relevant to Society's Needs**

*Helping Protect the Privacy of Individuals When Researchers Use Federal Data Bases:* Academic and agency researchers and statisticians have access to a

broad array of federal data bases, such as major public health survey results and Social Security records. Agencies share this information with the understanding that the identities of individuals will be protected. However, the risk exists that the “linkages” among various data sets can violate—whether purposely or inadvertently—the privacy of individuals. In response, GAO has developed strategies for “data stewardship”—specific steps that agencies can take to lessen privacy risks even as they put federal and other databases to their most productive uses. We have applied our understanding of technical and research concerns, as well as political sensitivities, to alert researchers and agencies to both the risks to privacy and the practical means of mitigating those risks.

*Improving NASA’s Lesson-Learned Processes:* The loss of the Mars Polar Lander and Climate Orbiter spacecraft in the late 1990s raised concerns that the National Aeronautics and Space Administration (NASA) was not applying lessons learned from past mistakes to future missions. GAO found that mistakes were not routinely identified, collected, or shared by NASA’s program and project managers. As a result, managers were unfamiliar with knowledge generated by other NASA programs and centers. NASA agreed with GAO’s findings and recommendations and has begun implementing measures to strengthen its lessons-learned processes and systems. By establishing more effective lessons-learned processes and systems, NASA could more successfully carry out its basic mission of exploring space faster, better, and more cheaply.

*Quantifying Improper Payments in Federal Programs and Activities:* Over the past several years, reviews of federal agency financial statements have identified about \$20 billion in improper payments annually. However, GAO reports have demonstrated that most federal agencies are not identifying and reporting the extent of their improper payments, the actions they are taking to reduce these payments, and the effect of these actions on reducing the payments. Consistent with our recommendations, the administration, through the President’s Management Agenda and revisions to Office of Management and Budget documents, has required selected agencies to report improper payment rates and the causes of those payments. Also, the Improper Payments Information Act of 2002 calls

for federal agencies to review all programs and activities, estimate the annual improper payments, and submit those estimates to the Congress.

*Improving Collection of Nontax Debt:* GAO continues to promote the various tools prescribed by the Debt Collection Improvement Act of 1996 to recoup delinquent debt balances, which continue to be in the \$60 billion range. Acting on our recommendations, Treasury and other agencies have increased collection by using more efficient processes to identify and transfer eligible amounts to Treasury for centralized debt collection action and by increasing the types of federal payments that can be intercepted to recover delinquent debt. Although debt collection continues to be a major challenge, the amounts collected from these efforts have added over \$300 million to a steadily growing stream of recoveries.

*Conducting Forensic Audits to Identify Waste, Fraud, and Abuse:* GAO developed a forensic audit approach that includes data mining, data matching, and various other analyses that can be used to identify waste, fraud, and abuse of federal funds. This approach, which we have been sharing with other agencies, has vast potential for assisting agencies in identifying questionable transactions and serving as a basis to improve controls, recover losses, discipline abusers, and deter future losses. Using the approach, we identified improper payments at HUD, Education, DOD, and other agencies. Improper payments included contract fraud, illegal or abusive uses of purchase and travel cards, fraudulent Pell Grants, and purchases of computer equipment that cannot be located.

*Improving Financial Accountability for the Medicare Program:* In a report issued in spring 2000, GAO cited the Centers for Medicare and Medicaid Services (CMS) for ineffective oversight of Medicare contractors’ multibillion-dollar financial activities, lax policy guidance to contractors on financial accounting matters, and ineffective follow-up on findings from financial audits. We also cited CMS’s lack of a financial management strategy to identify goals, improvement initiatives, and human capital planning. Our 2002 follow-up review showed that CMS had implemented more in-depth reviews of Medicare contractors’ internal controls; provided these contractors with financial management guidance; developed written procedures for its staff in

handling audit findings; developed a comprehensive financial management plan that defines financial management goals, objectives, and specific corrective actions to address weaknesses; and started to assess staff skills and competencies needed to manage Medicare's finances. These actions significantly improved CMS's ability to provide financial accountability for the more than \$200 billion spent annually to finance Medicare.

*Improving Government Charge Card Programs:* In a series of recent reports and testimonies, GAO highlighted pervasive weaknesses in the specific controls and overall control environment surrounding the government's multibillion-dollar purchase and travel card programs. These weaknesses increased the government's vulnerability to theft and misuse of property and funds and resulted in high DOD travel card delinquency rates. GAO highlighted numerous instances of potentially fraudulent, improper, and abusive activity related to the government's charge cards, including the purchase of a wide variety of goods and services that were unrelated to official business. GAO recommended many specific corrective actions, particularly preventive actions, that, if implemented, should help reduce the government's financial risk substantially. Agencies have started to lower the government's vulnerability by decreasing the number of purchase cards by about 70,000 (15 percent), lowering excessive card spending limits, and improving specific controls and the overall control environment.

*Improving Medicare Debt Collection:* In September 2000, GAO identified a multibillion-dollar backlog of uncollected, delinquent Medicare debt owed by providers. Medicare's administering agency, the Centers for Medicare and Medicaid Services, had made little progress in referring such debt for collection to the Department of the Treasury or its designee, as required by the Debt Collection Improvement Act of 1996. We also found in 2000 that Treasury had not worked with agencies, including the Department of Health and Human Services, to develop adequate debt referral plans and to oversee debt referral. In fiscal 2001, CMS began implementing our recommendations and accelerated the referral of its aged, delinquent debt. Under the revised debt referral process, in fiscal 2001 and the first three quarters of fiscal 2002, collections of delinquent debt amounted to almost \$55 million.

*Supporting the Congress with Legal Research and Analyses:* GAO provided the Congress with legal research and analyses that aided lawmakers in their deliberations. For example, our legal team prepared a detailed chronology of legal developments in statutes and regulations, ranging from the enactment of the Communications Act of 1934 to the present, which was the centerpiece of a hearing concerning radio spectrum management. In work related to Department of Energy waste cleanup compliance agreements, we provided important new insights into DOE's environmental cleanup program, including the first ever documentation of the number and scope of these agreements.

*Tracking Funds for United Nations Population Fund:* GAO investigated whether the Department of State failed to report an impoundment of \$34 million of a lump sum appropriation for International Organizations and Programs. State was authorized to make these funds available for the United Nations Population Fund after it ensured that the Fund's practices satisfied several statutory conditions. The State Department determined that the Fund's practices did not meet the conditions and that the funds would not be released. We concluded that to avoid an impoundment of the funds, the State Department must make the funds available for obligation to other programs financed by the International Organizations and Programs lump sum appropriation.

*Antideficiency Act Violation Results in Procedural Improvements:* In July 2002, GAO reported to the Chairman of the House Appropriations Committee that OMB and the Air Transportation Stabilization Board violated the Antideficiency Act when OMB apportioned \$172 million in subsidy budget authority to the Board for airline loan guarantees. The violation occurred because OMB's apportionment and the Board's obligation were made before the President requested and designated the budget authority as an emergency requirement as defined in the Balanced Budget and Emergency Deficit Control Act of 1985. After GAO's inquiry into the apportionment, the Board submitted an Antideficiency Act report to the President and to the Congress. In the future, to prevent violations of this type, any Board request for apportionment related to a future loan guarantee will include a copy of its corresponding Presidential emergency designation letter. OMB is modifying Circular A-34 instructions

to include a notice that “Agencies may obligate contingent funds only after the President formally designates the funds as an emergency requirement.”

*Accountability in the Federal Acquisition Process:* GAO is statutorily vested with authority to resolve disputes concerning the awarding of government contracts. In this role, GAO issues decisions on bid protests, resolving complaints that solicitations for contracts unduly restrict competition or that contracts have been awarded improperly. When a bid protest is found to have merit, we recommend actions appropriate to correct the violation of law involved in the procurement at issue. Our decisions on several of these protests are widely viewed as contributing significantly to ensuring a fair process and protecting the integrity of public/private competitions. For example, bidders challenged the Department of the Air Force’s award of an A-76 contract on the basis of cost comparisons. GAO found that the Air Force failed to ensure that the in-house cost estimate and the protester’s offer were based upon the same scope of work and performance standards. As a result of GAO’s decision and recommendation, the agency awarded the contract to the protesting bidder.

*District of Columbia Authorized to Purchase Commercial Insurance against Catastrophic Risks:* The District of Columbia Corporation Counsel asked GAO for an advance decision concerning whether the District of Columbia may properly use appropriated funds to purchase insurance to cover catastrophic exposures to risk (e.g., loss or damage to government property and tort liability). GAO concluded that the federal government’s policy of insuring itself does not apply to the District government because the District does not have the U.S. government’s resources or its wide dispersion of risk. Thus, we held that the District may use nonear-marked appropriated funds generated by District revenues to purchase insurance, allowing the District to protect itself against losses it could not cover from its own revenues and ensuring the proper use of appropriated funds.

*Identifying Program Abuse:* GAO identified program abuse and mismanagement by developing and analyzing information reported through FraudNET. FraudNET is GAO’s system of collecting, evaluating, and acting on allegations of fraudulent activity received from government employees,

whistleblowers, and the public at large. In fiscal 2002, FraudNET analysts researched 1,023 reports of fraud and abuse and referred 213 of these to executive branch agencies for further investigation. These analysts also obtained records, located potential witnesses, and assembled background information for GAO teams on a variety of subjects. In a cooperative effort, staff briefed state officials on GAO’s FraudNET operation and the elements of effective hotline operations.

*Fostering International Knowledge-Sharing:* Continuing to build working relationships with other international government organizations, GAO participated in a 3-day symposium in Kunming, China, sponsored by the Asian Development Bank. The meeting focused on construction of a legal framework for government procurement in the People’s Republic of China. GAO’s presentation on bid protests introduced the mechanism for administrative bid challenges and generated many questions. Through this opportunity, GAO shared the benefits of transparency in the bid protest process.

*Identifying Compromised Navy Purchase Card Accounts:* In reviewing a DOD investigation into the fraudulent use of 30 Navy purchase cards, GAO investigators identified as many as 866 purchase card account numbers that had been compromised. Our findings enabled the Naval Criminal Investigative Service to identify the source and point of compromise on the accounts. The numbers were subsequently canceled or reissued, eliminating a significant potential for fraud.

*Ensuring Full and Open Competition for Contracts at Washington-Area Airports:* As mandated in the Metropolitan Washington Airports Act of 1986, GAO reviewed contracting practices at the Metropolitan Washington Airports Authority. Our 2002 report made a number of recommendations designed to ensure that the Authority provides full and open competition when contracting for supplies and services. We recommended, among other things, that the Authority (1) reevaluate its use of preset thresholds, which could exclude some contractors from consideration for awards and (2) publish its contracting procedures for review and comment by the public. We also recommended that the Department of Transportation follow up on the Authority’s actions to address our recommendations. In response, the Authority published a draft of its con-



tracting procedures, which prohibits the use of preset thresholds. Furthermore, the Department of Transportation has stated its willingness to comment on the Authority's contracting procedures and provide advice on significant procurement issues when requested.

*Helping Address the Broad Challenges of National Preparedness:* Through numerous testimonies and reports, GAO has provided information and assistance to the Congress as it addresses the challenges of transforming the federal government to reduce risks from terrorist attacks. GAO's work has emphasized strengthening the risk management framework; developing and refining the national strategy, policy, and guidance structures; and bolstering the fundamental management foundation integral to effective public sector performance and accountability. In particular, the reorganization of homeland security activities to create the Department of Homeland Security will be a very difficult undertaking, but also a unique opportunity to create an effective, performance-based organization. Strategic planning, building partnerships, human capital strategies, communication and information systems and other factors will be critical to successful transformation. Strong and visionary leadership will be vital to creating a unified, focused organization from its many parts. In the near term, GAO reported, it will be important to articulate a clear overarching mission and core values, establish initial priorities, and develop an overall implementation plan for the new national strategy and related reorganization.

### **Analyze the Government's Fiscal Position and Approaches for Financing the Government**

*Auditing the U.S. Government's Financial Statements:* As in the 4 previous fiscal years, GAO has been unable to express an opinion on the U.S. government's consolidated financial statements for fiscal 2001 because of continuing material weaknesses in internal control and accounting and reporting issues. However, GAO's efforts are paying dividends in the form of significant improvements in estimating the cost of the government's lending programs and the net loan amounts expected to be collected, identifying errors or inaccuracies in reported amounts, and suggesting clarifications to financial statement disclosures. For example, our review of social insurance program information found numer-

ous inaccuracies in the amounts presented and descriptive information that, if not corrected, could have misled readers.

*Second Edition of the Principles of Federal Appropriations Law Completed:* GAO recently completed the second edition of its popular 2,500-page handbook on federal appropriations law, which governs the availability and use of federal public funds. This handbook, known as the Red Book, gathers, organizes, and explains statutes, regulations, and cases from all relevant authorities in this complex area. It enables those responsible for federal funds to understand and comply with the purpose, time, and amount limitations imposed by the laws and Constitution of the United States. The Red Book is often cited in executive branch agency memoranda, in congressional reports and debates, and in the decisions of the Supreme Court and other courts of the United States.

*Improving Government Debt Management:* In reviewing other nations' experiences in managing sovereign debt, GAO found that the selected nations used a number of the same debt management tools as the Department of the Treasury. We identified additional debt management tools used in other countries that may hold promise for the United States. Our work also helped inform international efforts to improve government debt management. In an authoritative resource guide used by government debt managers worldwide, the Organization for Economic Cooperation and Development republished segments of GAO's analysis of benchmark securities; terms to maturity; and use of 15 debt management tools across the United States, Australia, New Zealand, Norway, Sweden, and United Kingdom.

*Extending Budget Controls:* Over several years, in reports and testimony for the House Budget Committee, GAO has emphasized the need to extend the budget controls embodied in the expired Budget Enforcement Act and provided suggestions for improving these controls. Our continued focus on the critical need for congressional action helped keep the issue in the forefront. Congressional leaders have acknowledged the need for action. On September 30, 2002, the Congress introduced legislation to extend some controls and stated that other controls should be established through 2007.

*Ensuring That Qualified Persons Claim the Earned Income Credit:* Administering the earned income credit—a refundable tax credit available to low-income, working taxpayers—is not easy. While it is important for the Internal Revenue Service (IRS) to help ensure that all qualified persons claim the credit, it is equally important that the agency guard against fraud and other forms of erroneous claims. GAO estimated that of 17.2 million households that were eligible for the credit in 1999, about 12.9 million claimed it, for an overall participation rate of about 75 percent. In addition, we found that IRS's process for recertifying the eligibility of taxpayers whose claims had been disallowed by an audit could be unnecessarily burdensome for those taxpayers. Specifically, the taxpayers were asked to submit certain information that could be difficult for them to obtain or was inconsistent with what many IRS examiners considered acceptable for making recertification decisions. On the basis of our recommendations, IRS revised its earned income credit forms and clarified its guidance on the documentation needed to support a claim to help ensure that qualified persons receive the credit.

*Targeting Tax Credits:* Several GAO studies in the early and mid-1990s evaluated aspects of the design of the possessions tax credit and the earned income tax credit. As a result of these studies, the Congress modified the tax code, replacing the possessions tax credit with a less generous credit that will be eliminated in 2006 and tightening the eligibility requirements for the earned income tax credit. More current information on the 5-year impact of these changes points to \$564 million in revenue savings that GAO has not claimed previously.

*Supporting Congressional Oversight of IRS:* GAO continued to support congressional oversight of IRS's operations, including IRS's implementation of the IRS Restructuring and Reform Act of 1998, budget requests, and administration of various tax functions. For example, our work on the scope of abusive tax schemes and on IRS's efforts to combat them, despite declines in its compliance, enforcement, and collection activities, assisted the Congress in overseeing the adequacy of IRS's efforts to achieve appropriate levels of taxpayer compliance. In addition, our reviews of IRS's performance during the 2001 tax filing season led IRS to (1) improve the quality of its telephone service to taxpayers by

better correlating the demand for service and hours of service and (2) develop information to increase electronic filing by surveying taxpayers who had prepared their tax returns electronically but submitted them to IRS on paper.

*Improving IRS's Taxpayer Compliance Programs:* Responding to congressional concerns, GAO evaluated IRS's tax compliance and collection programs to determine the effect on taxpayers of recent declines in these programs' activities and outcomes. We reported large and pervasive declines for fiscal 1996 through 2001 in such areas as audit coverage and delinquent tax collections. Our analysis provided IRS with a basis for reexamining the extent to which some quantitative information on the impact of proposed program changes should be included in strategic assessments. In addition, IRS plans to take actions that we recommended to improve its Offer in Compromise program—an effort designed to settle the obligations of taxpayers who cannot afford to pay their full tax liability. For example, IRS plans to evaluate the effectiveness of initiatives designed to reduce the program's inventory of unresolved offers and to reexamine its basis for setting goals for case-processing times.

*Collecting Delinquent Taxes Owed by Federal Vendors:* Federal agencies pay billions of dollars each year to thousands of vendors that owe delinquent federal taxes. The Department of the Treasury's Financial Management Service (FMS) makes payments on behalf of most of these agencies, but a few agencies disburse their own payments. FMS's payments are subject to a tax levy through the Continuous Federal Tax Levy program, which the IRS operates in conjunction with FMS. This levy enables IRS to recover delinquent federal taxes owed by federal vendors. However, the payments made by the other agencies are not subject to the levy. To increase the potential for collecting delinquent federal taxes, GAO recommended that IRS and FMS work with the other agencies to develop plans for including their vendor payments in the continuous levy program. We estimated that IRS could recover at least \$270 million annually in delinquent federal taxes if the other agencies' payments were included in this program. IRS and FMS agreed to discuss ways to include the other agencies' vendor payments in the levy program.

## Strategic Goal 4

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

### Sharpen GAO's Focus on Clients' and Customers' Requirements

*Providing Emergency Relocation Support:* Following last October's anthrax incident, when three House of Representatives office buildings were closed, GAO provided office space and critical support services for Members and committees until the office buildings reopened. GAO's leadership and members of GAO's staff offices were instrumental in providing emergency planning and support for the House move. Efforts included identifying adequate space; readying the space for occupation; providing equipment, supplies, and information technology connectivity; determining and providing additional security requirements; and providing logistical support to House staff while they were in residence, all within a very short time. Within 48 hours, we moved 1,200 GAO staff to alternative work sites and provided them with notebook computers and remote access so that they could continue to perform their jobs, completely reconnected two floors of the GAO headquarters building to new telephone and computer networks, and enabled House Members and staff, a total of 1,800 people, to move into their temporary quarters. We later reversed that process, bought our staff back in, and resumed normal operations in fewer than 5 days. Through it all, we continued to issue reports and testify on issues important to the Congress and the American people.

*Increasing Outreach and Service to GAO's Congressional Clients:* To enhance our understanding of our congressional clients' needs, we pursued two feedback initiatives this year. First, senior executives continued their outreach to congressional clients to determine their views of GAO's work. These efforts indicated that client satisfaction has increased over the past year. Second, we completed a 7-month pilot test of a system for obtaining



Source: See Image Sources.

clients' views on our performance during an engagement, including the timeliness of the product, the frequency of communications during the engagement, and the professionalism of GAO staff during the engagement review. We plan to expand this system across the Congress in fiscal 2003. We also launched the Congressional Hearing System, a database that facilitates our preparation of a consolidated hearing list, hearing notices, and testimony statistics. Finally, we updated a brochure for the Congress describing our services and how to obtain them. We plan to distribute this brochure, called *Serving the Congress*, to the new Congress.

*Developing Agency and International Protocols:* Paralleling our purpose and approach in implementing the Congressional Protocols, we developed draft Agency Protocols to provide clearly defined, consistently applied, well-documented, and transparent policies for our work with federal agencies. We solicited and incorporated comments on the draft from 28 departments, agencies, and entities, as well as the President's Council on Integrity and Efficiency, and prepared a revised version of the protocols, which we began to pilot test in December 2002. To facilitate this pilot, we developed an e-learning (electronic Web-based) tool accessible to GAO staff through their desktops. The tool's questions and answers, organized by engagement management gate, provide analysts with quick, just-in-time information on what is expected of them and what is expected of the agency during each segment of an engagement. We also developed an

exposure draft of protocols for our work with international audit agencies and sent this draft to the Hill for comment.

*Making GAO's Work Accessible to the American People:* GAO continued its policy of proactive outreach to the press, our congressional clients, and the public to enhance the visibility of GAO products. In two nationwide mailings to the press, including 620 reporters and editors, we distributed *A Reporter's Guide to GAO* and highlighted our work on homeland security, human capital, and corporate governance. We also wrote and produced an award-winning video on GAO, "Impact 2000," and created a link for the press on GAO's external Web site, which receives almost 1,500 hits monthly. To inform news editors and editorial page writers of the value of GAO as a news source, we met with the editorial boards of major media outlets, including *The Wall Street Journal*, *The New York Times*, *The Washington Post*, and *USA Today*, and visited three mid-Atlantic media outlets, *The Baltimore Sun*, *The Philadelphia Inquirer*, and the *Bergen Country Record*. We also continued our outreach efforts on the Hill, regularly attending congressional hearings and meeting with reporters and press secretaries.

### **Enhance Leadership and Promote Management Excellence**

*Improving Strategic Management:* GAO issued its strategic plan for serving the Congress from fiscal 2002 through fiscal 2007. The new plan reflects the changes in the national agenda brought about by the war against terrorism, the uncertain economic outlook, and the return of budget deficits. We also issued our 2001 performance and accountability report, which combines information on our past year's accomplishments and progress in meeting our strategic goals with our plans for achieving our fiscal 2003 performance goals. In addition, the report includes our fiscal 2001 financial statements and the unqualified audit opinion rendered by an independent auditor. The report earned a Certificate of Excellence in Accountability Reporting from the Association of Government Accountants.

*Better Aligning Our Organization and Its Resources:* GAO made significant progress in linking its strategic plan, performance and accountability efforts, and budget process. During fiscal 2002, we improved the linkage between our strategic plan and our budget by implementing a workforce plan-

ning process that establishes a more participatory and systematic approach for managers to identify the resources needed to meet our goals and objectives. The process addresses not only the appropriate size and deployment of our workforce, but also its profile—focusing on ensuring that the workforce has the knowledge, skills, and abilities needed to pursue our strategic goals, both now and in the future. The strategic plan and workforce planning results serve as the foundation for our fiscal 2003 operating plan and fiscal 2004 budget request.

*Maintaining Integrity in Financial Management:* As part of our effort to be a model agency, in fiscal 2002 we retained the independent audit firm, Cotton & Co., LLP, to audit our financial statements. The auditors issued an unqualified opinion. Moreover, we conducted internal reviews of our compliance with requirements set forth in the Financial Integrity Act and Office of Management and Budget Circular A-127. The first review covered our Financial Management System, including its internal controls and training and reporting requirements, the adequacy of its integration with other GAO systems, and the maintenance of its general ledger and the consistency of the general ledger with the Standard General Ledger. The second review covered several of our internal operations—disbursements, travel reimbursements, and credit card charges; payroll and personnel operations; time and attendance; external training costs; blanket purchase agreements with vendors; and service agreements with other agencies. These reviews uncovered no problems and showed that we have the proper controls in place and that they are being followed.

*Continuing to Provide Leadership in Strategic Human Capital Management Planning and Execution:* During fiscal 2002, GAO strengthened its efforts to become a model in human capital operations. GAO's Human Capital Office led a multi-unit effort to review its roles and responsibilities, develop a vision for the future, and design initiatives to achieve this vision. These initiatives will be implemented in fiscal 2003. In addition, we developed a draft agencywide human capital strategic plan to be finalized and implemented in fiscal 2003.

*Improved Human Capital Manager Network:* Following GAO's mission support realignment, our Human Capital Office established a Human Capital Managers network to support managing directors

and teams. To improve this network and its service to clients, human capital managers documented and streamlined procedures, identified users' and unit heads' needs, and clarified their roles. As a result, the human capital manager team improved support to customers, developed a smooth hiring process, and participated in the development and implementation of numerous human capital policies and programs.

*Aligning GAO's Workforce and Mission Needs:* To build a diverse workforce with the knowledge, skills, and abilities to meet the new century's challenges, GAO took several actions in fiscal 2002 to expand and support its recruiting efforts. Overall, in fiscal 2002, we hired more new staff than in any recent year—nearly 430 permanent staff and 140 interns. Most of those hired were entry-level professionals with advanced degrees needed to support our strategic initiatives and meet our succession-planning needs as more senior staff retire. In addition, we recruited students in specific degree programs to acquire expertise in certain specialties that GAO needs to carry out its strategic goals.

Recognizing the need to place more emphasis on diversity in college recruiting, we developed and implemented a strategy for recruiting a broad spectrum of candidates for professional positions at GAO. This strategy is designed to ensure that GAO recruits candidates at schools that matriculate significant numbers of women and racial minorities, trains its recruiters in best practices for recruiting a broad spectrum of candidates, ensures that its own diversity is reflected in its recruiters and recruiting materials, and collects and analyzes data on the effectiveness of its recruiting efforts, including the extent to which best practices are used. This year, we enlisted key minority executives as recruiters and added outreach efforts at 23 schools. As a result, we attracted a talented and diverse pool of applicants.

The Comptroller General's Educators' Advisory Panel held its second annual meeting. The Panel's purpose is to establish long-term, multidimensional, and mutually beneficial working relationships between GAO and leading deans, professors, and others in academia. The Panel also advises the Comptroller General on human capital practices that can support GAO's efforts to become a model

for the federal government, including strategies, best practices, operations, and emerging issues and trends related to the recruitment, hiring, development, and retention of a diverse, talented, dedicated, and results-oriented workforce.

To promote the retention of staff with critical skills and 1 to 3 years of GAO experience, we implemented recent legislation (5 U.S.C. 5379) authorizing federal agencies to offer student loan repayments in exchange for commitments to federal service. Following the Office of Personnel Management's 2001 implementing regulations, we disbursed repayments of between \$3,400 and \$6,000 directly to lending institutions for 169 employees, each of whom signed a 3-year agreement to continue working at GAO.

To address budgetary constraints or mission needs, correct skill imbalances, or reduce expenditures for high-grade managerial or supervisory positions while meeting the desires of selected GAO personnel, we exercised our new Voluntary Early Retirement Authority. This authority, established in our October 2000 human capital legislation, allowed us to grant early retirement to 52 employees in fiscal 2002.

*Acquiring and Applying Information Technology to Support GAO's Strategic Objectives and Business Plans:* As the Clinger-Cohen Act requires, GAO is developing an enterprise architecture program to guide its information technology (IT) planning and decision making. In designing and developing systems, as well as in acquiring technology tools and services, we have applied enterprise architecture principles and concepts to ensure sound IT investments and the interoperability of systems.

During the past year, we acquired new hardware and software and developed user-friendly systems that enhance our ability to be productive and responsive to the Congress. For example, we replaced aging desktop workstations with lightweight notebook computers that provide greater computing power, speed, and mobility. In addition, we upgraded key desktop applications, the Windows desktop operating system, and our telecommunications systems to ensure that GAO staff have modern technology tools to assist them in carrying out their work. We also developed new, integrated, user-friendly Web-based systems that eliminate

duplicate data entry while ensuring the reusability of existing data. These new systems improve our ability to obtain feedback from our congressional clients, facilitate access to GAO information for the external customer, and enhance productivity for the internal customer. Among the new Web-based systems are

- a system for obtaining clients' views on our performance during an engagement,
- desktop IPTV (streaming video) for live and prerecorded programs (e.g., CG chats, C-SPAN, CNN),
- an applicant-handling system to support recruiting and hiring efforts,
- a docket database for the Office of General Counsel,
- an e-learning tool on the new Agency Protocols for analysts,
- a system for reporting the accomplishments—that is, the financial and other benefits—attributable to our engagements,
- a competency-based performance management system,
- an employee locator system,
- a videoconferencing reservation system,
- a system that allows employees to register themselves for internal training and obtain information on courses and classes, and
- a system that tracks employees' training requirements and training records.

In addition, we developed and implemented various Web sites to enhance knowledge-sharing, including a site for the Financial Accounting Standards Advisory Board, a site for employees with information on travel and subsequent reimbursement, and a site with guidance for nominating employees for external awards sponsored by federal and nonfederal organizations and schedules on the categories, criteria, and deadlines for awards to support timely nominations.

*Increasing Information Security:* GAO has recognized the increased threat to its shared information technology (IT) assets and is working to heighten

awareness of this threat, maintain vigilance, and develop practices that protect its IT infrastructures. Fiscal 2002 accomplishments in this area include

- installing software that monitors network users' compliance with GAO's security standards and indicates corrective actions when necessary;
- installing software that monitors unauthorized access to GAO's servers and alerts operations staff when immediate action may be needed to protect information assets;
- implementing a tool—the two-factor user authentication (SecurID)—that increases network security by requiring a PIN and a constantly changing number generated on a token to gain access to the GAO network, thereby eliminating the network's vulnerability to penetration because of weak passwords;
- developing a baseline disaster recovery strategy and plan that provide for the temporary operation of our essential computer systems; and
- completing security control reviews and risk assessments for two critical information systems—the Mission Assignment and Tracking System and the Financial Management System—that identified improvements necessary to maintain full compliance with federal IT security guidelines.

*Providing a Safe and Secure Workplace:* In fiscal 2002, GAO assessed the vulnerability of its building and grounds to security risks and identified measures that it could take to reduce the risk of potential incidents; enhance security processes, procedures, and equipment; and provide for the continuity of operations. This year, we put several low-cost or relatively simple measures in place. For example, we installed an x-ray machine at a primary loading dock, upgraded the air filter system, and upgraded the fire alarm and public address systems. We also recommended procedures and identified sites for continuing GAO's work in alternative locations. Finally, we began conducting background investigations on all contractors who work in the headquarters building. The investigations are comparable to those conducted for GAO employees and help ensure the safety of staff and property by holding contractors to the same standards as GAO employees.

## Leverage GAO's Institutional Knowledge and Experience

*Increasing Capacity through Knowledge-Sharing and Collaboration:* GAO's application and use of tools for exchanging information strengthened the capacity of GAO audit teams and other state and national audit entities to help improve the performance and accountability of governments worldwide. For example, through an ongoing relationship with the Private Sector Council, we obtained information on best practices in the design and manufacture of products that we used to develop recommendations for improving the Department of Defense's acquisition of major weapon systems. We also used a Web-based tool, AGNet, to glean applicable knowledge and experience from 11 other countries to support our review of efforts to prevent the spread of mad cow disease in the United States. In addition, we managed a 4-month international fellowship program for 14 fellows, provided technical training on performance audits to more than 150 auditors from 10 European countries, and entered into an agreement with the Inter-American Development Bank, the International Organization of Supreme Audit Institutions International Development Initiative, and the Organization of Latin American and Caribbean Supreme Audit Institutions to provide technical assistance to strengthen training for auditors in 21 countries. Moreover, we participated in a joint audit of student assessment systems with the Department of Education's Office of Inspector General, the Texas and Pennsylvania state auditors, and the Philadelphia Office of the Comptroller that resulted in seven reports recommending improvements to management controls and data quality. Finally, to enhance staff's ability to utilize Web-based knowledge services, GAO offered training in Lexis-Nexis, CourtLink, Leadership Directory, and Internet Explorer during fiscal 2002.

*Improving the Management of Agency Records:* In fiscal 2002, GAO introduced several initiatives to enhance records management. To reduce the time required to obtain GAO records stored at the Washington National Records Center, we negotiated a contract with the center's courier service. The courier service guarantees a 4-hour turnaround for emergency requests, and the couriers have a clearance to deliver files directly to the requesting office and back to the records center. We also started a cleanup of files across GAO, providing direction

and guidance for retiring files and preparing documents for secure destruction. As a result, 800 feet of files were retired and approximately 1,178 feet of records were identified for destruction, freeing storage space and equipment. Finally, to support GAO's leadership in the area of creating and managing key documentary source material, our Knowledge Services and Quality and Risk Management offices cosponsored a Workpaper Task Force to reassess GAO's policies for workpaper management and identify opportunities to improve the effectiveness and efficiency of GAO's workpaper practices using new information technologies.

*Piloting Knowledge-Sharing among GAO Teams:* Formed in the fall of fiscal 2002, the National Preparedness Web Support Group fosters information-sharing to support collaboration on national preparedness issues across GAO. The Web Support Group created and implemented a National Preparedness Web portal in July 2002, which served as a critical tool in coordinating activities of the National Preparedness virtual team (staff throughout GAO who work on national preparedness issues and rely on the Web to obtain current information about these issues).

## Continuously Improve GAO's Business and Management Processes

*Enhancing GAO's Guidance and Tools:* To improve the engagement process, GAO clarified and enhanced its guidance for project plans and message agreements—efforts that should lead to providing better products for our clients. A GAO team also developed an electronic workpaper set to help analysts determine the documentation requirements for engagements of various lengths. Additionally, we enhanced our desktop policy guidance tool, known as the EAGLE (Electronic Assistance Guide for Leading Assignments), by adding individual teams' guidance, thereby making it easier for staff to find and follow GAO and team policies and procedures.

*Improving GAO's Products and Business Processes:* In fiscal 2002, GAO streamlined the graphics and report production processes for *Highlights*, a one-page summary that presents the key findings and recommendations of a GAO report or testimony, and implemented this new reporting format first piloted in fiscal 2001. Feedback from congressional clients, federal agencies, the media, accountability

organizations, and universities has been overwhelmingly positive. In addition, *Highlights* was showcased at the annual conference of the Federal Audit Executive Council and has been adopted as a new product by the Postal Service Inspector General.

GAO's successful implementation of the risk management approach introduced in fiscal 2000 improved the engagement management process. An assessment of critical aspects of this approach showed there has been an increase in the number of draft reports meeting all quality standards the first time they are submitted for official review outside the originating team.

In fiscal 2002, we centralized our process for notifying other federal agencies and private parties of visits by GAO staff. As a result, we are able to send clearance information more quickly and accurately, and GAO employees are more aware of the pre-visit requirements and the information needed to arrange their visits.

To increase the efficiency of the report production process and improve communication between audit teams and the product assistance groups, we implemented a tracking system to obtain real- or nearly real-time information on the status of GAO publications during the production process, including editing, graphics preparation, composition, printing, and distribution. The system tracks the report package throughout the process, simultaneously generating metrics on the process and providing users with easier and faster access to information on the report's status, the estimated completion date, and the date of release for distribution.

*Realizing Efficiencies and Savings:* GAO continues to negotiate innovative contracts and obtain competitive lease rates for its IT equipment, end-user products such as workstations, and infrastructure such as servers and software. By taking advantage of multiyear funding flexibility and by treating the IT leases as services, we are able to amortize the costs of acquisitions over multiple years. As a result, we were able to acquire new notebook computers and flat panel monitors for most GAO staff. Furthermore, after replacing our computer hardware, we donated over 2,300 computers and other computer-related equipment to schools in the

Washington, D.C., metropolitan area and in the metropolitan areas of the field offices, as allowed under Executive Order 12999, Computers for Education. This effort not only enabled us to dispose of our surplus equipment but also ensured that taxpayer dollars would continue to be put to good use in local communities.

Our contract for electrical services and programs has also enabled us to cut costs. We negotiated a 4 percent discount on our electrical rates under a new contract with PEPCO Energy Services, which enabled us to save over \$52,000 in fiscal 2002. We also participated in PEPCO's electrical load curtailment program by reducing our demand for electricity in the GAO building during periods of high regional electrical consumption. Our efforts helped the electrical utilities avoid brownouts or blackouts and gave us a credit on our monthly utility bill.

GAO continued the digital conversion of prior GAO products, resulting in a decline in the number of hard copy requests and a corresponding decrease in paper costs. In fiscal 2002, we added 10,200 files of GAO products from 1978-1985 to the database. The number of hard copy requests has decreased from over 800,000 to 137,000 per year since the project began in fiscal 1997, for a total annual average paper cost avoidance of \$24,400, or \$48,800 total for the past 2 fiscal years.

In fiscal 2001, a Web-based Meeting Room Booking System was developed to provide information on the location, capacity, and availability of audio-visual or video-conferencing equipment of meeting rooms in the headquarters building. The system also allows anyone in GAO to schedule the rooms, a feature that has decreased the time necessary to reserve a meeting room from an average of 10 to 15 minutes to an average of 1 to 2 minutes. This translates to an average monthly savings of \$8,552. Net savings for fiscal 2001 after development and implementation costs were approximately \$64,000. Net savings for fiscal 2002 and beyond are over \$100,000 annually.

Finally, instead of making each team responsible for obtaining, maintaining, storing, and distributing office supplies and equipment, we streamlined the process for requesting and delivering supplies by establishing Shared Service Centers on each floor.



Now, fewer staff are required to manage supplies and equipment, and customers receive the materials and services they need more quickly.

### **Become the Professional Services Employer of Choice**

*Leading the Way in Performance Management:* In fiscal 2002, GAO implemented a new performance appraisal system for analysts and specialists, adapted the system for attorneys, and began modifying the system for Administrative Professional and Support Staff. This system is part of a broader competency-based performance management system that is designed to align employees' performance with the agency's core values and strategic plan. Performance management includes performance planning, coaching, and feedback activities, as well as appraisal, recognition, reward, and pay and promotion processes. GAO views the system as a framework for all of its human capital programs, including recruitment, training and development, and recognition and rewards.

*Linking Compensation and Awards to Performance:* Under its new performance management system, GAO is restructuring its compensation and award programs to better link pay and recognition to efforts that support its core values and strategic goals. We revised our performance-based compensation system for analysts and specialists to reward significant contributions that generate returns for taxpayers, serve clients, further institutional values, and support various GAO-wide efforts. Finally, we took a first step toward tying our compensation system for Administrative Professional and Support Staff to performance by reinstating quality step increases, which allow us to raise General Schedule salary levels for high-quality contributions. The costs of this change were minimal, but the impact on staff morale was great.

*Training Staff to Meet the New Competencies:* To support GAO's transition to the new competency-based performance management system and help staff meet the new competencies, GAO and its contractors completed training and learning needs assessments, "promising practices" research, and a draft curriculum for analysts that focuses on the competencies and the work that analysts perform at each band level.

To provide some training while we are completing our curriculum development, GAO's Center for Performance and Learning contracted for the delivery of more than 100 commercially available training classes to GAO staff in topics related to the new competencies. The center's staff monitored and evaluated the extent to which courses addressed the new competencies and provided immediate feedback to the contractors on ways to make the course materials more relevant to GAO staff. To increase the availability of courses, particularly in the field offices, we began a project to create a virtual classroom. An application implemented in December 2001 provides Web-based distance learning for GAO staff and employs both individual and collaborative activities. Students can communicate with the instructor and other course participants both directly and through chat sessions and e-mail. It is anticipated that as this type of program expands and becomes more universally available, the timing and quality of training will improve, while the amount of downtime and expense associated with other types of traditional training will be reduced.

To enhance the competencies of selected managers and executives, the center reinstated a centrally funded external training program during fiscal 2002. Under the program, approximately 60 managers and executives received specialized training in leadership and management.

*Providing Career Transition Services:* To assist employees seeking career alternatives, GAO established an on-site Career Transition Center, staffed with a full-time career counselor, to provide confidential career-transition services. The center assists employees with career assessments and planning, job searches, resume and cover-letter writing, and interviewing techniques. It also includes a resource center with related books, periodicals, and videos. During fiscal 2002, the Career Transition Center provided services to more than 100 GAO employees.

*Modernizing the GAO Headquarters Building:* At the GAO headquarters building, several modernization projects completed or initiated during the year provided more office space and new facilities to support GAO's mission. For example, the construction of a new printing facility in the basement freed valuable first floor space for conversion into usable office space and, in turn, allowed sixth floor office space to be cleared for modernization. In addition,

the construction of new, permanent storage space in the basement created a home for the GAO Historical Archives, and the use of existing air-handling equipment provided proper environmental conditions for preserving irreplaceable GAO documents. The space formerly occupied by the archives was converted to offices. Furthermore, an old design for modernizing the sixth floor was thoroughly updated to reflect lessons learned, the changing demographics of GAO's workforce, and an emerging need for a new e-security computer lab. While the updating took some time, GAO's overall modernization project remained on schedule, new ideas were incorporated, and a disruptive retrofit of the existing computer lab was avoided.

*Transit Benefit Program Implementation:* GAO's Financial Management Policy staff matrixed with staff in the Controller and Administrative Services Office, the Human Capital Office, and the Office of the General Counsel to develop and document transit benefit policy and coordinate legal clearances, coordinate administration and distribution of benefits with the Department of Transportation, and develop internal marketing strategies to announce the program rollout. As an indicator of the program's success, almost one-half of all GAO employees receive transit benefits.

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## 2. *Inspector General's Report*



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# Memorandum

**Date:** November 27, 2002

**To:** Comptroller General

**From:** Inspector General – Frances Garcia

**Subject:** Management Challenges

We have reviewed management's assessment of the management challenges. Based on our work and institutional knowledge, we agree that human capital, physical security, and information security are the management challenges that may affect our performance. We are in agreement with management's assessment of progress made in addressing these challenges.

In addition, we reviewed all fiscal 2002 accomplishment reports claiming financial benefits of \$1 billion or more and found that GAO has a reasonable basis for claiming these benefits. We plan to review the internal controls for several key performance measures in fiscal 2003.

### 3. Report on the Implementation of Public Law 106-303

As required by section 6 of Public Law 106-303 (sometimes referred to as the GAO Personnel Flexibility Act of 2000) enacted on October 13, 2000, we are providing a review of the actions taken by GAO under sections 1 through 3 of the act.

#### *Section 1. Voluntary Early Retirement*

The Comptroller General is authorized by the act to offer voluntary early retirement to agency employees when necessary and appropriate to realign GAO's workforce to meet budgetary constraints or mission needs; correct skill imbalances; or reduce high-grade, managerial, or supervisory positions. After providing an opportunity for all employees to comment, we issued final agency regulations for the use of this authority on April 27, 2001.

In fiscal 2002, 52 individuals separated from the agency under the voluntary early retirement authority. In fiscal 2003, we again exercised our voluntary early retirement authority for individuals wishing to retire by March 14, 2003.

#### *Section 2. Voluntary Separation Incentive Payments*

Section 2 of the act authorizes the Comptroller General to offer voluntary separation incentive payments. The agency contribution to the retirement fund required by the act is too high to permit the use of this authority. Therefore, we have no immediate plans to exercise this authority, which is in effect only until December 31, 2003, and have no plans to issue agency regulations.

#### *Section 3. Reduction in Force*

Section 3 authorizes the Comptroller General to issue revised regulations for the separation of employees during a reduction or other adjustment in force. The Comptroller General may conduct a reduction or adjustment in force because of budgetary constraints or when necessary to realign GAO's workforce; to correct skill imbalances; and to reduce high-grade, supervisory, and managerial positions. Retention during a reduction or other adjustment in force will be based on the following factors in descending order of priority: tenure, veterans' and military preference, performance, length of service, and other objective factors, such as skill and knowledge.

GAO has developed draft regulations to implement this provision and made them available to all of the agency's employees for comment on September 26, 2002. As required by the act, GAO's regulations must be consistent with the reduction in force regulations issued by the Office of Personnel Management (OPM). Because of differences in GAO's organizational structure and personnel system, however, the Congress recognized that GAO's procedures might vary from OPM's approach in certain areas. Moreover, the act itself mandates some differences. GAO must consider performance before length of service when ranking employees for release during a workforce restructuring. GAO's draft regulations provide that after employees' tenure and eligibility for preferences are considered, they be ranked on the basis of their "retention scores." This score is determined by an employee's performance appraisal average for the prior 3 years and the number of years of federal service. The comment period closed on October 28, 2002, and we are in the process of reviewing and analyzing the comments submitted by employees. We anticipate issuing final regulations early in calendar year 2003.

GAO is required to report actions taken under the reduction in force procedures and to assess the impact on veterans eligible for preferences. No such actions were taken in fiscal 2002. Consequently, there was no impact on the agency's veterans.

### *Overall Assessment*

The three flexibilities discussed in this report have the potential to help address the human capital challenges facing GAO. The vacancies created by the separation of employees taking voluntary early retirement will assist us in realigning staff to meet more critical needs. As noted in section 2 above, the utility of the voluntary separation incentive provision in realigning the agency's workforce is questionable because of the high cost of the retirement contribution. Lastly, we are in the process of finalizing revised reduction in force regulations. While GAO does not have any current plans to conduct a

reduction in force, it is both prudent and appropriate to finalize these regulations so that we may deal with any future budget or restructuring issues. In our view, the draft regulations, based on the provisions of the act, are a significant improvement over current rules for selecting employees for separation in the event of a downsizing or realignment.

During the 108th Congress, we will work with our appropriations and oversight committees to achieve enactment of legislation to support our continuing efforts to be a leader in federal human capital management and a world-class organization. To build on the human capital flexibilities provided by the Congress in 2000, we will identify opportunities for additional flexibilities that would, among other things, facilitate GAO's continuing efforts to develop a more performance-based compensation system, realign our workforce, and provide greater opportunities for staff to phase into retirement.

## 4. *Government Information Security Reform*

GAO is implementing an information security program that is consistent with requirements in the Government Information Security Reform provisions (commonly referred to as “GISRA”) enacted in the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001. Although GAO is not obligated by law to comply with GISRA, we have sought to implement its requirements to help ensure that GAO establishes an effective information security program and to help fulfill our goal of being a model federal agency.

To assess the status of GAO’s information security program, we considered the results of internal reviews by program offices and security staff, independent evaluations of our major financial applications by a public accounting firm, and testing of information technology (IT) controls for our general support system by GAO’s IT auditors, who are independent of GAO’s IT support function. These reviews and evaluations identified no material weaknesses in GAO’s financial applications or general support system. They also showed that GAO is making substantial progress in implementing information security requirements consistent with GISRA through its efforts to

- implement a risk-based, agencywide security program;
- develop essential policies and reporting mechanisms to ensure that GAO’s program managers, the Chief Information Officer, and the Comptroller General implement and maintain security requirements;
- provide security training and awareness;
- enhance the agency’s capability to respond to computer security incidents;
- integrate security into GAO’s capital investment control process;
- identify GAO’s critical assets within our enterprise architecture;

- ensure the security of services provided by a contractor or another agency; and
- develop and implement an enterprise disaster recovery solution.

In addition, GAO continues to provide separate funding for IT security initiatives and training to upgrade the skills of our IT security staff. GAO augments its security staff through contractor support, as necessary.

Along with indicating our progress, the reviews and evaluations also identified areas needing improvement. GAO is taking corrective action for these areas and, in particular, has undertaken several projects that will significantly improve our information security program during fiscal 2003. Among these projects are the following:

- Host-based intrusion detection—Having completed the process of applying host-based intrusion detection software to GAO’s external servers, we have begun to apply this software to our internal servers and plan to expand this effort during fiscal 2003 to add complementary tools. These tools will facilitate the early detection of and response to any suspicious activity and identify trends that can help us to enhance our security architecture.
- Strong user authentication—We have delivered a strong (two-factor) authentication system to most of our staff. The system requires staff accessing GAO’s general support system to combine a personal identification number they select with a six-digit pass code generated randomly every 60 seconds by each person’s unique authentication device. This process provides a high degree of certainty that each user accessing GAO’s general support system is legitimate. During fiscal 2003, we will complete the project’s implementation, including extending the authentication system to all of GAO’s remote access and internal wireless links. We are also studying the feasibility of using a password management device to more securely

store and transmit users' credentials on mission-critical systems and applications under the control of GAO's administrative staff.

- IT disaster recovery—We are refining the disaster recovery plan we developed last year and have begun to conduct limited testing exercises to ensure the viability of the plan. We are working with the vendor of GAO's disaster recovery site to

strategically position critical backup computing assets and set up essential telecommunications links for GAO's client-server-based systems. In addition, we are implementing a new network storage technology that we expect to integrate into our disaster recovery infrastructure during fiscal 2003.

## 5. Acronyms

AICPA	American Institute of Certified Public Accountants	FMFIA	Federal Managers' Financial Integrity Act (Integrity Act; now 31 U.S.C. 3512)
APSS	Administrative Professional and Support Staff	FMS	Financial Management Service
COE	Corps of Engineers (U.S. Army)	FTAA	Free Trade Area of the Americas
CLF	Central Liquidity Facility	GAAP	generally accepted accounting principles
CMS	Centers for Medicare and Medicaid Services	GAO	General Accounting Office
CPA	certified public accountant	GISRA	Government Information Security Reform Act
CSRS	Civil Service Retirement System	GSA	General Services Administration
DI	Disability Insurance	HHS	Department of Health and Human Services
DOD	Department of Defense	HUD	Department of Housing and Urban Development
DOE	Department of Energy	IG	Inspector General
DOL	Department of Labor	INTOSAI	International Organization of Supreme Audit Institutions
EAGLE	Electronic Assistance Guide for Leading Engagements	IRS	Internal Revenue Service
FAA	Federal Aviation Administration	IT	information technology
FASAB	Federal Accounting Standards Advisory Board	JFMIP	Joint Financial Management Improvement Program
FBI	Federal Bureau of Investigation	NASA	National Aeronautics and Space Administration
FDA	Food and Drug Administration	NATO	North Atlantic Treaty Organization
FECA	Federal Employees' Compensation Act	NED	New Engagement Database
FEGLIP	Federal Employees Group Life Insurance	NIH	National Institutes of Health
FEHPB	Federal Employees Health Benefit Program	OMB	Office of Management and Budget
FEMA	Federal Emergency Management Agency	OPM	Office of Personnel Management
FERS	Federal Employees Retirement System	PCIE	President's Council on Integrity and Efficiency
FFMIA	Federal Financial Management Improvement Act (Improvement Act)	PWBA	Pension and Welfare Benefits Administration
FHA	Federal Housing Administration	QRM	Quality and Risk Management
FICA	Federal Insurance Contributions Act		



R&D	research and development	USAID	United States Agency for International Development
SBA	Small Business Administration	U.S.C.	United States Code
SEC	Securities and Exchange Commission	USEC	U.S. Enrichment Corporation
SFFAS	Statement of Federal Financial Accounting Standards	VA	Department of Veterans Affairs
SGA	substantial gainful activity	VERA	Veterans Equitable Resource Allocation
SSA	Social Security Administration	Y2K	Year 2000

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