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January 2003

# VA HEALTH CARE

## Improved Planning Needed for Management of Excess Real Property



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# Highlights

Highlights of [GAO-03-326](#), a report to the Honorable John D. Rockefeller IV, U.S. Senate

## Why GAO Did This Study

The Department of Veterans Affairs (VA) has changed from a hospital-based system to primary reliance on outpatient care. As a result, VA expects that the number of unneeded buildings will increase. Veterans' needs could be better served if VA finds ways to minimize resources devoted to these buildings. VA must have an effective process to find alternate uses or dispose of unneeded property. In August 2002, VA completed a pilot test for realigning its health care system in the Great Lakes network. The pilot identified 30 buildings that are no longer needed to provide health care to veterans. VA is currently studying how to realign assets in its 20 remaining networks. GAO was asked to review VA's management of unneeded buildings in its Great Lakes network.

## What GAO Recommends

GAO recommends that the Secretary of Veterans Affairs conduct a pilot test in the Great Lakes network of its newly developed model for managing vacant buildings and make modifications, if needed, to ensure that it will provide an effective decision-making tool that could be used in the remaining networks. VA concurred with this recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-03-326](http://www.gao.gov/cgi-bin/getrpt?GAO-03-326).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Cynthia A. Bascetta at (202) 512-7101.

## VA HEALTH CARE

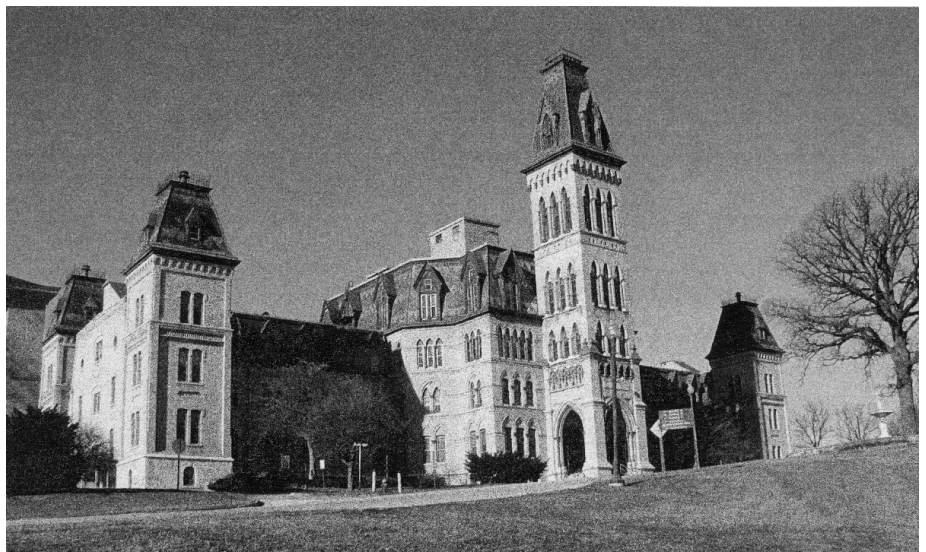
# Improved Planning Needed for Management of Excess Real Property

## What GAO Found

The Great Lakes network has developed or implemented alternative use or disposal plans for 21 of the 30 unneeded, vacant buildings. VA has leased 10 of the buildings to the Chicago Medical School and is negotiating a lease for 3 buildings with Catholic Charities of Chicago. Four buildings were demolished, and 4 buildings will be demolished in order to construct new facilities or to expand an existing cemetery.

The network identified three obstacles that hinder alternative use or planning for the remaining buildings:

- VA has been unable to find organizations interested in using the vacant, unneeded buildings due primarily to their location or physical condition.
- VA may spend more to demolish buildings than it would spend to maintain the buildings as is.
- VA is reluctant to transfer disposal responsibility for the buildings to the General Services Administration, primarily because (1) VA would incur costs for environmental and other requirements that could exceed potential savings through avoidance of routine maintenance costs, and (2) any proceeds may only be used for the construction of VA nursing homes.



Source: VA.

Vacant building at the health care facility in Milwaukee, Wis., for which the Great Lakes network has no alternate use or disposal plan.

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## Abbreviations

CARES	Capital Asset Realignment for Enhanced Services
GSA	General Services Administration
VA	Department of Veterans Affairs



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United States General Accounting Office  
Washington, DC 20548

January 29, 2003

The Honorable John D. Rockefeller IV  
United States Senate

Dear Senator Rockefeller:

The Department of Veterans Affairs (VA) operates one of our nation's largest health care delivery systems, comprising 21 health care delivery networks that operate and maintain over 4,700 buildings. Over the past decade, VA's system has undergone a dramatic transformation, shifting from predominantly hospital-based care to primary reliance on community-based VA and non-VA providers for a full continuum of health care delivered largely on an outpatient basis. As a result, vacant and underutilized buildings at VA's inpatient locations have become more common.

Because the cost to operate and maintain these underutilized and vacant buildings consumes resources that could otherwise be used to provide health care services for veterans,<sup>1</sup> VA initiated its Capital Asset Realignment for Enhanced Services (CARES) process. Under CARES, VA's Undersecretary for Health has directed networks to develop asset-restructuring plans to guide future capital investment decisions that would involve constructing new facilities or renovating or closing existing ones for the purpose of delivering health care more efficiently in existing locations or closer to where veterans live.

Through CARES, VA plans to develop a nationwide strategic plan that identifies capital assets needed to meet veterans' health care needs, as well as those assets that are no longer needed. In August 2002, VA announced the results of its CARES pilot test—a plan to realign capital assets to improve health care delivery in its Great Lakes network. This plan described how VA intends to restructure its inpatient facilities as well as open new outpatient clinics in community settings to provide health

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<sup>1</sup>U.S. General Accounting Office, *VA Health Care: Capital Asset Planning and Budgeting Need Improvement*, [GAO/T-HEHS-99-83](#) (Washington D.C.: Mar.10, 1999), *VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process*, [GAO/T-HEHS-99-173](#) (Washington D.C.: July 22 1999), and *VA Health Care: Improvements Needed in Capital Asset Planning and Budgeting*, [GAO/HEHS-99-145](#) (Washington D.C.: Aug. 13, 1999).

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care to veterans. Also, VA identified 30 vacant buildings that are no longer needed to meet veterans' health care needs.<sup>2</sup>

Currently VA is conducting CARES studies in its 20 other health care networks. VA's goal is to make realignment decisions by October 2003, and it expects that many additional buildings will be considered excess, given its extensive inventory of buildings nationwide. As such, timely disposal or alternate use of excess buildings could play a critical role in VA's realignment efforts by avoiding maintenance costs or generating revenue to enhance services for veterans such as financing needed renovations to existing buildings.

In your capacity as Chairman of the Senate Committee on Veterans' Affairs, you asked us to review VA's management of vacant buildings in the Great Lakes CARES pilot to better understand the potential implications of excess property for the entire CARES process. Accordingly, we assessed the Great Lakes Network's efforts to develop alternate use or disposal plans for vacant buildings and identified obstacles that hinder effective management.

To conduct our work, we visited medical facilities in the Great Lakes network, where we also did physical inspections of vacant buildings. We reviewed documents related to the 30 vacant buildings, as well as the network's plans for managing these buildings. We discussed these plans and asset disposal issues with officials responsible for asset management in VA's headquarters, in the Great Lakes network office, and at the network's health care facilities. We also discussed federal disposal policies, procedures, and practices with officials of the General Services Administration (GSA) as well as representatives of the National Trust for Historic Preservation. We performed our review from January 2002 through January 2003 in accordance with generally accepted government auditing standards. Appendix I contains a more detailed description of our scope and methodology.

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## Results in Brief

VA has developed or implemented alternative use or disposal plans for 21 of its 30 unneeded, vacant buildings in the Great Lakes network. For

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<sup>2</sup>As part of the restructuring of inpatient services, VA also plans to close the Lakeside Division of its Chicago Health Care System and transfer patients to the system's West Side Division and, as needed, to the Hines VA hospital, by December 2003. In addition, VA identified three other network buildings that may become vacant over the next 3 years.

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13 buildings, VA expects to generate revenue through Enhanced-Use Leases<sup>3</sup> primarily with nonprofit organizations. Enhanced-Use Lease partners have demolished 4 buildings, and VA expects 4 additional buildings will be demolished to meet higher priority needs, such as additional cemetery capacity or parking for patients, visitors, and others when using VA health care facilities.

For the remaining 9 vacant buildings, network officials identified three obstacles that hinder effective management. First, despite significant efforts to find alternate uses, they have been unable to find organizations interested in using the buildings due primarily to their location or physical condition. Second, network officials believe that it may cost more to demolish buildings than to continue to incur routine maintenance costs although in many cases the network has not determined the cost to demolish the vacant buildings. Third, although disposal responsibility for these buildings can be transferred to GSA, network officials have been reluctant to pursue this option primarily because VA would incur costs for environmental and other requirements that could exceed potential savings through avoidance of maintenance costs. However, the network has not determined whether such transfer costs actually exceed potential savings. VA also does not consider this to be an attractive option because any proceeds could only be used for construction of VA nursing homes.

We are making a recommendation to improve the decision-making process for assessing alternative ways to deal with excess buildings. VA concurred with our recommendation.

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## Background

VA spent about \$21 billion to provide health care services, including acute medicine, surgery, mental health, and long-term care, to about 4.2 million veterans during fiscal year 2001. Of VA's 4,700 buildings, over 40 percent have operated for more than 50 years, including almost 200 built before 1900. Over 1,600 buildings have historical significance that requires VA to comply with special procedures for maintenance and disposal.

VA's health care infrastructure was designed and built to reflect a concept of hospital-centered inpatient care, with long stays for diagnosis and

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<sup>3</sup>38 U.S.C. §8161 (2002) *et seq.* VA has authority to enter into partnerships to lease its properties to nongovernmental entities. In turn these entities develop, rehabilitate, or renovate the properties.

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treatment. This concept is now outdated as new technology and treatment methods have shifted delivery from inpatient to outpatient services where possible and shortened lengths of stay when hospitalization is required. As a result, VA's capital assets often do not align with current health care needs for optimal efficiency and access.

To address this situation, CARES will assess veterans' potential demand for health care over the next 20 years, identify potential service gaps and develop delivery options for meeting veterans' needs, and guide the realignment of capital assets to support the preferred delivery options. VA conducted a pilot test in the Great Lakes network, which served about 220,000 veterans in fiscal year 2001 with an annual budget of \$891 million. This network includes three general market areas: northern Illinois (Chicago), Wisconsin, and the Upper Peninsula of Michigan. In February 2002, the Secretary of Veterans Affairs selected strategies for realignment of services. These strategies included (1) consolidation of services at existing locations, (2) opening of new outpatient clinics, and (3) closure of one inpatient location.

Subsequently, VA identified 30 vacant buildings that were no longer needed to meet veterans' health care needs. Of the 30 buildings, 11 are considered to be historic. Under the provisions of the National Historic Preservation Act,<sup>4</sup> federal agencies are required to take into account the effect of any federal undertaking on any historic property. Until a decision is made on demolition, agencies that own or control historic properties are required to preserve their historic character and minimize harm to them. The act also establishes federal agency responsibilities that must be met if historic properties are to be demolished.

During fiscal year 2001, officials in VA's Great Lakes network told us that an estimated \$750,000 was spent to maintain vacant buildings, primarily for utilities. Network officials told us that this represents a relatively small portion of the total resources needed to adequately operate these buildings for the delivery of health care or other purposes. Actual expenses were lower because the buildings are no longer used for health care.

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<sup>4</sup>16 U.S.C. 470 *et seq.* The act establishes roles and responsibilities of the federal government to preserve and protect historic properties.

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In general, the network considered three options when developing property disposal or other plans for vacant buildings: Enhanced-Use Leasing, demolition, or transferring the property to GSA, which has the authority to dispose of excess or surplus federal property under the Federal Property and Administrative Services Act of 1949 (Property Act).<sup>5</sup> Under Enhanced-Use Leasing, VA may lease property to others for up to 75 years; it may transfer title to the lessee at some time during the life of the lease if such transfer is in the best interests of the federal government. Demolition is a viable option when the associated costs can be recovered within a reasonable period, primarily through the avoidance of maintenance costs. If VA reports the property to GSA as excess, GSA identifies potential users for the property by going through several levels of screenings that evaluate users in the following order of priority: federal users; organizations that will use the property for homeless programs under the Stewart B. McKinney Homeless Assistance Act;<sup>6</sup> nonprofit organizations that may want the property for public uses such as parks, museums, or educational facilities; and state or local governments. If none of these screening processes produce a user, the site is made available for public sale.

Following the pilot test in the Great Lakes network, VA made significant modifications to its CARES procedures, including development of a more systematic process to guide decisions involving the management of vacant buildings. For example, networks will use a common format for estimating future maintenance costs, as well as potential demolition costs. However, the model does not include costs associated with the transfer of property to GSA nor the potential revenue that could be realized.

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<sup>5</sup>Excess property means any property under the control of a federal executive agency that is not required for the agency's needs or the discharge of its responsibility. (40 U.S.C. § 102(3); 41 C.F.R. §101-47.901.) If GSA determines that excess real property is not required by any federal landholding agency, the property is deemed "surplus" and eligible for disposal. (40 U.S.C. § 102(10); 41 C.F.R. 101-47.901.)

<sup>6</sup>42 U.S.C. § 11411.



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## VA's Management of 30 Vacant Buildings in Its Great Lakes Network

VA has negotiated Enhanced-Use Leases for 10 vacant buildings and is negotiating Enhanced-Use Leases for 3 buildings. Four buildings have been demolished, and 4 additional buildings will be demolished. VA currently has no disposal plans for the other 9 buildings.

In April 2002, VA contracted with the Chicago Medical School for an Enhanced-Use Lease of 10 vacant buildings at VA's North Chicago health care delivery location. The medical school will either renovate or demolish these buildings and in return will purchase utilities, including steam, electricity, and chilled water, from a VA-operated facility. In addition to generating revenue from the sale of utilities, the network will avoid annual maintenance costs of over \$440,000.

VA is negotiating an Enhanced-Use Lease with Catholic Charities of Chicago for 3 vacant buildings at the Hines VA hospital in Chicago. Two of the three were considered historic; VA network officials took steps to have the historic designation removed. VA expects Catholic Charities to renovate the buildings to make them suitable for transitional housing for the homeless. VA also expects to receive rental payments as well as reimbursement for utilities, grounds maintenance, and snow removal. In addition, VA is negotiating with Catholic Charities to use at least 50 percent of the housing for veterans who need this service. Network officials told us that utilities were turned off and that no funds were spent on these buildings for other purposes during fiscal year 2001.

Four buildings have been demolished, and 4 others will be demolished. At the Chicago Health Care System's West Side Division, the Enhanced-Use Lease partner demolished 3 buildings in November 2002 to provide space for a new parking garage and a Veterans Benefits Administration regional office. The U. S. Navy demolished 1 building at North Chicago on land that VA transferred to it for future use. Four other buildings will be demolished because they present safety hazards or the land is needed to expand existing VA facilities, including cemeteries. These buildings are located at the Milwaukee health care facility and Hines VA hospital. Two of these buildings, located at Milwaukee, are historic. The other two buildings are at Hines. One of the two was considered historic. Network officials told us they were successful in having the historic designation removed. This building will be demolished in order to construct a surface parking lot for a new spinal cord injury/blind rehabilitation center. During fiscal year 2001, VA spent about \$17,000 to operate and maintain these 4 buildings.

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## Obstacles to Alternate Use or Disposal of 9 Vacant Buildings

Despite the efforts of network officials, the lack of interest in 9 of VA's vacant buildings has been an obstacle to finding alternate uses for these buildings. Network officials believe that maintaining ownership of the vacant buildings is the least expensive course of action, given the relatively high demolition costs compared to annual maintenance costs and considerable uncertainties concerning VA's potential costs to transfer the properties to GSA.

Network officials told us that they have attempted to interest outside organizations in utilizing the 9 vacant buildings without success. For example, officials at the medical center in Tomah, Wisconsin, offered to transfer ownership of a 23,579-gross-square-foot building to a local Indian tribe for use as office space and an outpatient clinic. The building, which was constructed in 1929, has been vacant since 1983. According to VA, the offer was turned down because of the \$2 million cost of renovations needed to make it suitable for this purpose. The medical center director told us that because Tomah is located in a rural area, it has been difficult to find other organizations interested in this building and its two other vacant buildings.

Likewise, officials at the Milwaukee medical center told us that they have had discussions with other organizations concerning use of 6 vacant buildings. They have tried to generate interest in the buildings as elderly housing, as office space, and for a youth home. These officials suggested that two of the vacant buildings, a theater and a chapel, could, when renovated, be used for these purposes if interested parties could be found. They told us they have held discussions with other government agencies, school organizations, a labor union, and charitable organizations without success.

Network officials cited a second obstacle, namely that the cost to demolish the 9 vacant buildings could not be recovered through avoidance of maintenance costs, such as utilities, within a reasonable period. For example, the network determined that the cost to demolish 3 of these 9 vacant buildings would be about \$500,000, while maintenance costs for the 3 buildings were about \$26,000 during fiscal year 2001.

The shortest recovery period was about 11 years for 1 of the 4 buildings. This 33,910-square-foot building, located in Tomah, Wisconsin, has been vacant since 1998. According to VA, the cost to demolish this building would be \$212,000. During fiscal year 2001, the medical center spent about \$18,600 for utilities for this building. By contrast, demolition costs for 1 building would likely take over 40 years to recover. This 23,579-gross-

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square-foot building has been vacant at the Tomah medical center since 1983. During fiscal year 2001, the medical center spent about \$7,000 to maintain this building. According to VA, the cost to demolish this building would be \$308,000.

In addition, network officials cited the uncertainty of potential costs as the third obstacle in declaring the 9 buildings excess property under the provisions of the Property Act. First there is no assurance that VA could save money given that property-holding agencies, such as VA, incur costs in disposing of excess property with GSA. Property-holding agencies are generally responsible for mothballing and stabilizing<sup>7</sup> property in order to prevent its further deterioration pending transfer to another federal agency or its disposal. According to GSA, the landholding agency is also responsible for studies to detect the presence of hazardous wastes as well as archeological sites.

GSA officials also told us that they are committed to maintaining the best and highest use for the property and that historic property will be transferred only under covenants that protect its historic designation; all 9 buildings are considered historic. According to a network official, the Great Lakes network has not determined whether the cost of transferring these excess buildings to GSA exceeds the cost of continuing to own and maintain them.

Second, VA does not consider the transfer of vacant buildings to GSA (by declaring them excess) to be an attractive option. This is because proceeds that are received from the sale of real property must be deposited into the VA Nursing Home Revolving Fund, which is only to be used for the construction of nursing homes. VA would prefer to use these proceeds for the delivery of inpatient and outpatient services for veterans as well as long-term care. VA officials told us that they had proposed legislation that would allow VA to use sales proceeds to support veterans' health care delivery, but it was not enacted. As a result, VA would prefer to pursue Enhanced-Use Leases, which will allow VA to use revenue to meet the overall health care needs of veterans.

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<sup>7</sup>Mothballing includes securing the buildings, providing adequate ventilation, and disconnecting and sealing off all utilities. Stabilizing includes structurally stabilizing the buildings, controlling pests, and protecting the exterior and interior from moisture.

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## Conclusions

Officials in VA's Great Lakes network have made progress dealing with vacant buildings that are no longer needed in the delivery of health care to veterans. When there is no Enhanced-Use Lease potential, however, these officials have encountered several obstacles, including potentially high demolition costs or uncertain site preparation costs associated with reporting buildings to GSA as excess to VA's needs. Understandably, they are reluctant to commit potentially large amounts of health care resources for the demolition or site preparation without sufficient assurance that most or all costs will be recovered. The Great Lakes network has retained ownership of 9 vacant buildings and thus continues to spend medical care resources to maintain them. As the CARES process is completed in the 20 remaining networks, costs associated with an increasing number of unneeded buildings that will be identified will grow. Therefore, it is critical that VA take the steps needed to systematically evaluate all relevant cost information. VA's recent changes to the CARES process provide a framework for making effective decisions, although since the changes have not been tested, it remains unclear whether they will function as an effective model that includes complete cost information concerning options to dispose of or find alternate uses for vacant buildings.

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## Recommendation for Executive Action

To ensure that the newly developed CARES model for managing excess buildings will provide an effective decision-making tool that could be used in the other networks, we recommend that the Secretary of Veterans Affairs conduct a pilot test of the model in the Great Lakes network and make modifications, if needed.

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## Agency Comments

In commenting on a draft of this report, VA agreed with our findings and conclusions and concurred with our recommendation. VA's letter is reprinted in appendix II.

We modified the report to use the term "Enhanced Use Leasing," as VA suggested. We also incorporated VA's technical comments as appropriate. VA also emphasized that it had proposed legislation that would allow VA to use sales proceeds to support veterans' health care delivery, but it has not been enacted. Also, VA expressed concern that the process for removing buildings from historic preservation status is a significant obstacle when it attempts to find alternate use for or dispose of all remaining buildings. We agree that this process complicates VA's ability to manage vacant buildings, but as we stated in our report, VA has been successful in removing the historic designation of buildings in the Great Lakes network in order to facilitate demolition or alternate use. Factors

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such as the constraints on the ability to retain proceeds from the sale of real property and the need to address historical building issues are shared by many real property-holding agencies. We discuss the factors associated with excess property in the federal government as a whole in a soon-to-be-released report on longstanding problems in the federal real property arena.

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We are sending copies of this report to the Secretary of Veterans Affairs and other interested parties. We will also make copies available to others upon request. In addition, the report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please call me at (202) 512-7101. Key contributors to this report were Paul Reynolds, Behn Miller, and John Borrelli.

Sincerely yours,



Cynthia A. Bascetta  
Director, Health Care—Veterans'  
Health and Benefits Issues

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# Appendix I: Scope and Methodology

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To assess the Department of Veterans Affairs' (VA) efforts to manage unneeded, vacant buildings, we obtained information from the Great Lakes network on the number of such buildings, the cost to maintain the buildings, and its efforts to find alternate uses for the buildings. We asked for information such as the age of the buildings, the year in which they became vacant, the cost of utilities and other operating costs, as well as the cost of any needed repairs. We also asked about the network's plans to manage these buildings through such actions as demolition or Enhanced-Use Lease.

After we received this information we visited the network and interviewed the Director and other network staff members about their efforts to deal with unneeded, vacant buildings. We discussed with these officials their plans for implementing Capital Asset Realignment for Enhanced Services (CARES) options selected by the Secretary. We visited the Hines, Milwaukee, and North Chicago hospitals. During our visits we met with hospital directors, associate directors, and their staffs. We discussed with these officials their actions to find alternate uses for the buildings and problems they have encountered in doing so. By telephone, we discussed with the Director of the Tomah hospital and members of his staff information on the hospital's vacant buildings. At the Milwaukee and North Chicago hospitals, we visually inspected vacant buildings. We did not tour vacant buildings at Hines because of building safety concerns.

At VA headquarters, we met with officials to discuss the CARES process and VA's plans for managing vacant buildings. We reviewed CARES planning documents, including information supporting the network's August 2002 realignment decisions. We also met with VA's Historic Preservation Officer to discuss the impact of historic significance on VA's ability to take actions on unneeded vacant buildings.

We met with General Services Administration officials to discuss the process for disposing of excess property as well as proposed legislation aimed at improving federal agencies' ability to manage federal property. We also discussed management of historic properties with officials at the National Trust for Historic Preservation.

We performed our review from January 2002 through January 2003 in accordance with generally accepted government auditing standards.

# Appendix II: Comments from the Department of Veterans Affairs



DEPARTMENT OF VETERANS AFFAIRS  
Assistant Secretary for Congressional and Legislative Affairs  
Washington DC 20420

JAN 15 2003

Ms. Cynthia A. Bascetta  
Director, Health Care—Veterans'  
Health and Benefits Issues  
U. S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Bascetta,

The Department of Veterans Affairs (VA) has reviewed your draft report, ***VA HEALTH CARE: Improved Planning Needed for Management of Excess Real Property*** (GAO 03-326), and agrees with your overall findings and conclusions. VA concurs with the General Accounting Office's (GAO) recommendations. However, in order to more appropriately identify VA's authority to better manage its capital assets, GAO's report should use the terminology "Enhanced-Use Leasing." The term "lease" is used incorrectly throughout the draft report. These references should be changed to enhanced-use leasing where appropriate.

VA believes that additional discussion should focus on the issues involving asset disposal to strengthen the content of GAO's report. VA believes the lengthy and cumbersome process for removing buildings from historic preservation status is a significant obstacle when it attempts to find alternate use for or to dispose of all remaining buildings. This point should be stressed in the report. As GAO notes, 9 of the 10 remaining buildings in the VA's Great Lakes Network are designated on the National Register of Historic Buildings.

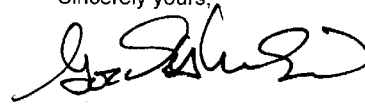
Additional obstacles include 1) funding the cost required to carry out disposal activities; and 2) depositing any funds VA may receive in the VA Nursing Home Revolving Fund, which can only be used to construct nursing homes. VA has proposed several asset disposal mechanisms to remedy this situation, but none have been enacted.

2. Ms. Cynthia Bascetta

The enclosure contains additional technical corrections that should be made to more accurately describe VA's enhanced-use leasing activity.

VA appreciates the opportunity to comment on your draft report.

Sincerely yours,



Gordon H. Mansfield

Enclosure



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Washington, D.C. 20548