

*Performance and  
Accountability*

REPORT Fiscal 2003



# 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 GAO's approach is designed to ensure both.

### RELIABILITY

We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimonies, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

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# *From the Comptroller General*

November 14, 2003

Having just ended my fifth year as Comptroller General of the United States and head of the U.S. General Accounting Office (GAO), it is a pleasure to present our fiscal 2003 performance and accountability report. With this report, we attempt to convey the outstanding achievements of all GAO employees as they work to serve the Congress and the American people. GAO is in the performance and accountability busi-



Source: GAO.

ness; our work covers every area the federal government is involved in, or is thinking about getting involved in, anywhere in the world. Simply put, we try to help the federal government work better and for the benefit of all our nation's citizens. I believe that this report demonstrates our many contributions to that objective in fiscal 2003, and I am confident that the performance data and financial information in this report are complete and reliable, as noted in my statement of assurance that appears on [page iv](#) of this report. Importantly, we met or exceeded all but one of our seven key performance measures, and we received a clean opinion from independent auditors on our financial statements. While the value of many of our accomplishments this past year could not be measured in dollars, many could. In that regard, we helped the Congress and government leaders achieve a total of \$35.4 billion in financial benefits—a \$78 return on every dollar that we spent.

Looking over the past year, our work addressed many of the difficult issues that confront the nation, including diverse and diffuse security threats, changing demographic trends, increasing interdependency, rapidly evolving science and technology changes, a variety of quality-of-life issues, as well as government transformation challenges, and increasing federal budgetary constraints. Perhaps the foremost challenge government decisionmakers faced this year was to ensure the security of the American people. By providing professional, objective, nonpartisan information and

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analyses, we helped inform the Congress and executive branch agencies on key issues such as the challenges involved in creating the Department of Homeland Security, including its mission, make-up, structure, cost, and implementation; and the nature and scope of threats confronting the nation's nuclear weapons facilities, its information systems, and all areas of its transportation infrastructure—air, surface, and maritime. Among the programs that required additional focus due to changing demographic trends were the quality of care in the nation's nursing homes and the risks to the government's single-employer pension insurance program. We also were actively engaged in various efforts to transform selected government entities (e.g., the United States Postal Service and the Federal Bureau of Investigation) and functions (e.g., strategic human capital and real property management). Our work in these and other areas covered programs that touch millions of lives and involve billions of dollars.

Finally, the delayed budget deliberations for fiscal 2003 were symptoms of the difficult decisions facing the Congress as the nation confronts what appears to be a period of recurring budget deficits and long-term fiscal challenges. In January 2003, as the new Congress began its session, we issued our latest series of reports that identified management challenges and program risks at 23 federal agencies and highlighted actions needed to address these serious problems. Like the previous editions, the 2003 reports made clear how vital it is that federal agencies take a strategic approach to their missions and ways of doing business. At the same time, we updated our reports that identify areas at high risk due to their greater vulnerabilities to waste, fraud, abuse, and mismanagement; major challenges associated with their economy, efficiency, or effectiveness; or the need for broad-based transformations.

In these and other areas of our work—some of which are highlighted on [page vii](#)—the American people benefited this year as federal agencies took a wide range of actions based on our analyses and recommendations and as our efforts heightened the visibility of issues needing attention. It is important for our nation and its citizens not only that these issues are made visible, but also that the nation's leaders attend to them. I feel fortunate and honored that, more often than not, our clients, executive branch officials, and others listen to what we have to say and act on our recommendations. Furthermore, our reports are typically published and available on our Web site ([www.gao.gov](http://www.gao.gov)), which keeps us accountable to our clients, the American people, and the world at large.

In addition to having an impact on important national issues, we have taken major steps internally to be a model federal agency and world-class professional services organization. Of our three management challenges—human capital, physical security, and information security—no area is more important to our ability to fulfill our mission than how we manage our human capital—our people. In recent years, we have

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taken a variety of steps to attract, retain, motivate, and reward a quality and high-performing workforce—steps that included revamping our recruiting and hiring programs and creating a state-of-the-art, competency-based performance management system. As this is written, the Congress is poised to grant us further human capital flexibilities that will allow us, among other things, to move to an even performance-based compensation system. Our people are truly our most valuable asset. How prudently we manage and invest in them will determine, to a large extent, how well-equipped we will be to serve the Congress and the American people in the years to come.

In summary, fiscal 2003 was another successful year for us. I believe that those who read this report will agree that the taxpayers received an excellent return on their investment from 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 2003*

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 U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- GAO is in compliance with all applicable laws and regulations—Transactions are executed in accordance with (1) 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 (2) 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 31 U.S.C. 3512 (commonly referred to as the Federal Managers' Financial Integrity Act). This is an accomplishment we set for ourselves even though, as part of the legislative branch of the federal government, we are not technically required to do so.



David M. Walker  
Comptroller General  
of the United States





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GAO Faults U.S. on Space - Based Missile Sensor

watchdog at credit  
GAO finds

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GAO Auditors Say IMF Reform Short

GAO cites concern  
watchdog at credit

U.S. Netted Little From Cancer Drug

GAO Finds Hurdles to Linking Financial Firms to Fraud

GAO: Landmarks Shortchanged

GAO: Students Test

GAO to broadly probe Iraq contract

Posner and David Morris

GAO shakes its financial finger at

GAO's Faults U.S. Survey of

GAO Triples Estimates of

stock fund fees climb as market falls

GAO Says IRS Performance

GAO and Security Dept OMB Watch List

GAO pushes for explicit disclosure of costs to fund invest

GAO Says IRS Performance

GAO seeks public input on job competition appeals process

GAO will new GAO rule increase bid protests

GAO Says IRS Performance

GAO Chief Aims to Raise The Bar on Pay Raises

**GENERAL ACCOUNTING OFFICE**

Year	Revenue	Expenses	Net Income
2002	1,800	1,800	0
2003	1,800	1,800	0
2004	1,800	1,800	0
2005	1,800	1,800	0
2006	1,800	1,800	0
2007	1,800	1,800	0
2008	1,800	1,800	0
2009	1,800	1,800	0
2010	1,800	1,800	0

Keeping the Procurement System Honest

GAO Chief Aims to Raise The Bar on Pay Raises

GAO makes portable office go

The biblical quote on Daniel Gordon's office wall - "Justice, justice, shalt thou

GAO Chief Aims to Raise The Bar on Pay Raises



# In fiscal 2003, GAO served the Congress and the American people by helping to –

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- Identify steps to reduce improper payments and credit card fraud in government programs.
- Make sound decisions on funding national defense.
- Restructure government and improve its processes and systems to maximize homeland security.
- Assess the risks of major weapon systems acquisitions.
- Prepare the financial markets to continue operations if terrorism recurs.
- Tighten security at nuclear weapons facilities.
- Oversee the multibillion dollar restoration of the Everglades.
- Update and strengthen government auditing standards.
- Estimate the exposure of U.S. troops to chemical plume during the 1991 Gulf War.
- Enhance the quality of nursing home care.
- Improve the administration of Medicare as it undergoes reform.
- Strengthen the U.S. visa process as an antiterrorism tool.
- Improve transportation security in the wake of September 11.
- Encourage and help guide federal agency transformations.
- Contribute to congressional oversight of the federal income tax system.
- Identify human capital reforms needed at the Department of Defense, the Department of Homeland Security, and other federal agencies.
- Raise the visibility of long-term financial commitments and imbalances in the federal budget.
- Serve as a model for other federal agencies by modernizing our approaches to managing and compensating our people.
- Reduce security risks to information systems supporting the nation's critical infrastructures.
- Improve the Department of Defense's business operations, software development, and information technology acquisition processes.
- Ensure effective implementation of the No Child Left Behind Act.
- Oversee programs to protect the health and safety of today's workers.
- Ensure the accountability of federal agencies through audits and performance evaluations.



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# Contents

<b>Introduction</b> .....	i
<b>From the Comptroller General</b> .....	i
<b>The Comptroller General's Integrity Act Assurance Statement for Fiscal 2003</b> .....	iv
<b>GAO at a Glance</b> .....	1
<b>How to Use This Report.</b> .....	7
<b>Part I: Management's Discussion and Analysis</b> .....	9
<b>Supporting the Congress and Benefiting the American People</b> .....	10
Agencywide Results .....	11
A Balanced Scorecard .....	19
GAO's High-Risk Program .....	21
Managing Our Resources .....	24
Strategies and Challenges .....	27
<b>Part II: Performance Information</b> .....	35
<b>How We Assess Our Performance</b> .....	36
Our Strategic Management Structure .....	36
Our Annual Performance Measures .....	37
<b>Goal 1 Results</b> .....	41
Financial Benefits .....	42
Other Benefits .....	43
Additional Measures .....	43
Two-year Performance Goals .....	44
<b>Goal 2 Results</b> .....	49
Financial Benefits .....	50
Other Benefits .....	51
Additional Measures .....	51
Two-year Performance Goals .....	52
<b>Goal 3 Results</b> .....	55
Financial Benefits .....	56
Other Benefits .....	57
Additional Measures .....	57
Two-year Performance Goals .....	58
<b>Goal 4 Results</b> .....	61

<b>Data Quality and Program Evaluation</b> .....	64
Completeness and Reliability .....	64
Procedures to Ensure Data Quality .....	64
Program Evaluation .....	69
<b>Part III: Financial Information</b> .....	73
<b>From the Chief Financial Officer</b> .....	74
<b>Overview of Financial Statements</b> .....	76
Financial Systems and Internal Controls .....	76
Limitations on Financial Statements .....	77
Purpose of Each Financial Statement .....	77
<b>Balance Sheet</b> .....	78
<b>Statement of Net Cost</b> .....	79
<b>Statement of Changes in Net Position</b> .....	80
<b>Statement of Budgetary Resources</b> .....	81
<b>Statement of Financing</b> .....	82
<b>Notes to Financial Statements</b> .....	83
<b>Audit Advisory Committee's Report</b> .....	91
<b>Independent Auditor's Report</b> .....	92
<b>Part IV: Appendixes</b> .....	97
<b>1. Accomplishments and Other Contributions</b> .....	98
<b>2. From the Inspector General</b> .....	138
<b>3. GAO's Report on Personnel Flexibilities (Pub. L. No. 106-303)</b> ....	139
<b>4. GAO's Federal Information Security Management Act Efforts</b> ....	142
<b>5. Acronyms</b> .....	144
<b>Image Sources</b> .....	146
<b>Obtaining Copies of GAO Documents</b> .....	147

On 11/21/03 we corrected an error in the note on page 2 to reflect a recent merger of two GAO teams and an error on page 12 regarding our agencywide fiscal 2004 performance target for timeliness. On 12/18/03 we corrected the labels on the financial benefits pie chart shown on page 13, and we corrected the Web link to the Financial Audit Manual on page 30.

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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, our “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, testify before the Congress over 200 times a year on average, 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, we contribute 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. These teams are backed by staff offices and mission support units. About three-quarters of our more than 3,250 employees are based at our headquarters in Washington, D.C.; the rest are deployed in 11 field offices.



Source: GAO.

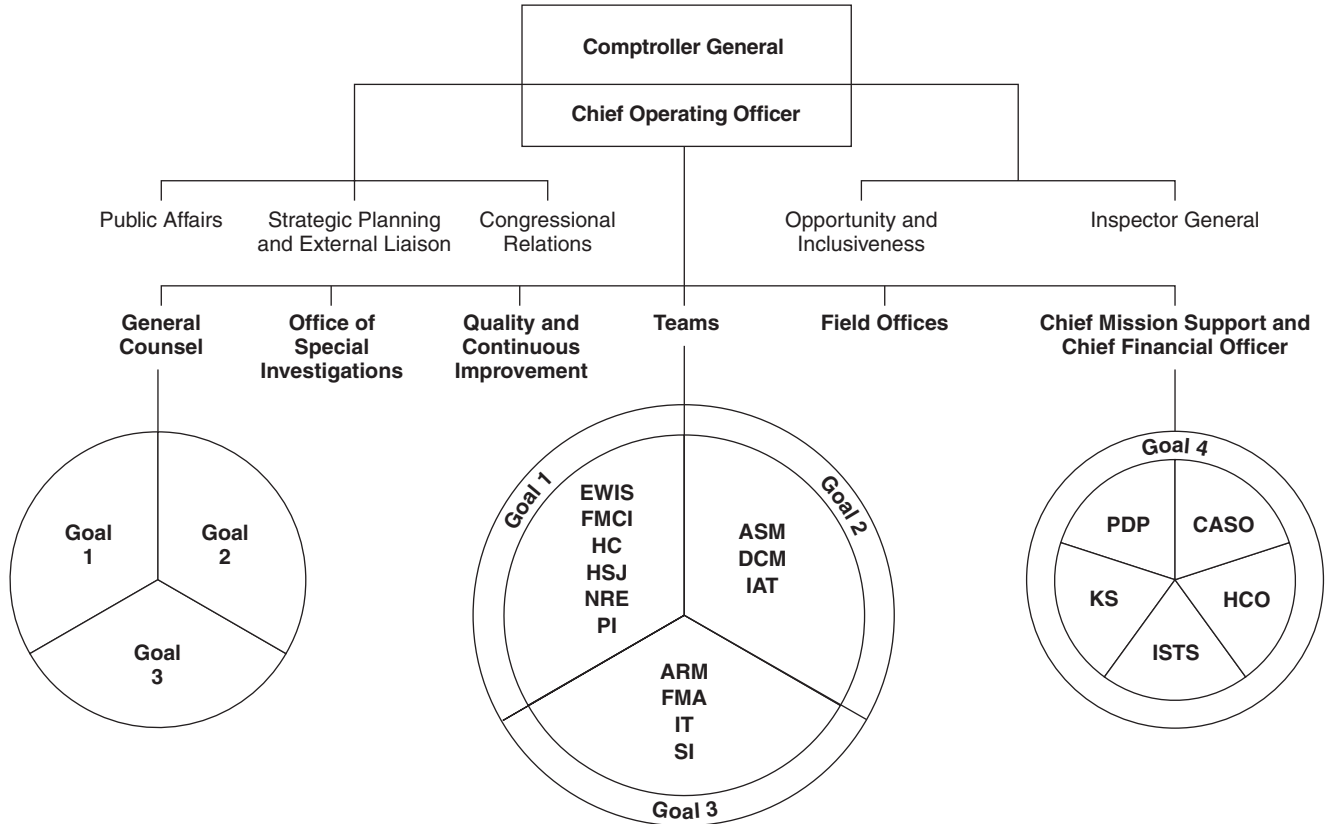
## Our Locations



Source: GAO.

Our 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 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, General Counsel Anthony Gamboa, and Chief Mission Support Officer/Chief Financial Officer Sallyanne Harper. Members of the Senior Executive Service lead the agency’s research, audit, and evaluation teams and the various staff and mission support offices.

## Our Structure



Source: GAO.

Note: Several teams perform work in support of multiple strategic goals. These teams include Acquisition and Sourcing Management (ASM); Applied Research and Methods (ARM); Defense Capabilities and Management (DCM); Education, Workforce, and Income Security (EWIS); Financial Management and Assurance (FMA); Financial Markets and Community Investment (FMCI); Health Care (HC); Homeland Security and Justice (HSJ); Information Technology (IT); International Affairs and Trade (IAT); Natural Resources and Environment (NRE); Physical Infrastructure (PI); and Strategic Issues (SI). Units supporting strategic goal 4 include Controller/Administrative Services Office (CASO); Human Capital Office (HCO); Information Systems and Technology Services (ISTS); Knowledge Services (KS); and Professional Development Program (PDP).

To ensure that we are well positioned to meet the Congress's future needs, we update our 6-year strategic plan every 2 years, consulting extensively during the update with our clients in the Congress and with other experts (see our strategic plan framework on [page 3](#)). Using the plan as a blueprint, we lay out the areas in which we expect to conduct research, audits, analyses, and evaluations to meet our clients' needs, and we allocate the resources we receive from the Congress accordingly. Given the increasingly fast pace with which crucial issues emerge and evolve, we design a certain amount of flexibility into our plans and staffing structure so that we can respond readily to the Congress's changing priorities. When we revise our plans or our allocation of resources, we disclose those

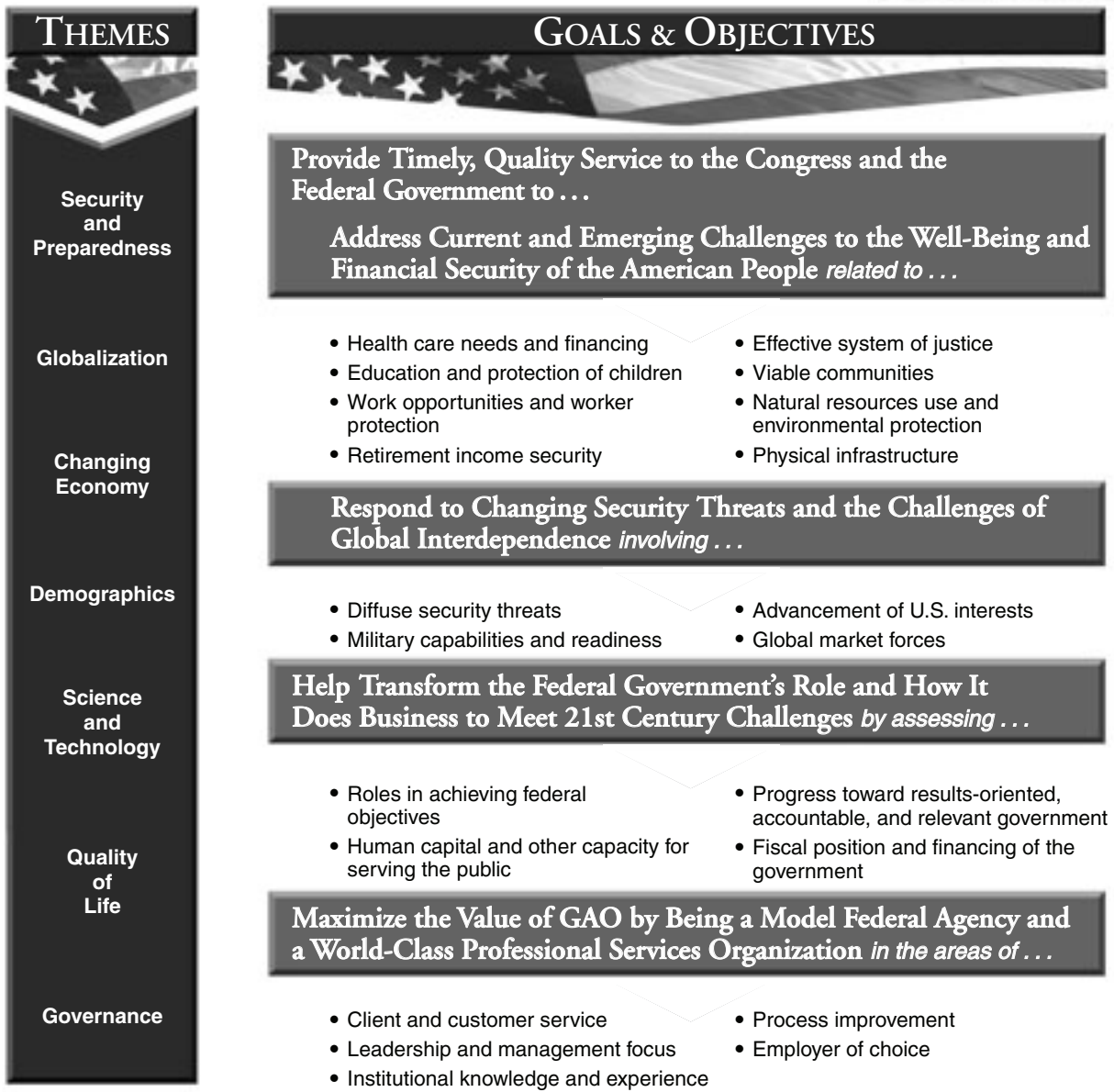
changes in annual performance plans and revised performance plans, all of which are posted—like our strategic plan updates—on the Web for public inspection ([www.gao.gov/sp.html](http://www.gao.gov/sp.html)). Each year, we hold ourselves accountable to the Congress and to the American people for our performance, primarily through our annual performance and accountability report that you are reading. Last year, the Association of Government Accountants (AGA) awarded us for the second consecutive year its Certificate of Excellence in Accountability Reporting for our performance and accountability report (see [page 5](#)). According to AGA, this certificate means that we produced an interesting and informative report that achieved the goal of complete and fair reporting.

# 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.



## CORE VALUES



Fiscal 2003-2007

Source: GAO.

We conduct specific engagements as a result of requests from congressional committees and mandates written into legislation, resolutions, and committee reports. In fiscal 2003, 92 percent of our engagement work was requested or mandated by the Congress. We initiated the remaining 8 percent of the engagement work as authorized by our enabling legislation.<sup>1</sup> Senior executives in charge of the teams that support our strategic goals manage this mix of engagements and ensure that the Congress's need for information on quickly emerging issues is met along with our longer-term work efforts that flow from our strategic plan. To effectively serve the Congress within our resources, senior managers, in consultation with our congressional clients, determine the timing and priority of engagements they are responsible for.

As a legislative branch agency, we differ in some ways from executive branch agencies. We are, for instance, exempt from many laws applicable to the executive branch. However, 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 (commonly referred to as the Federal Managers' Financial Integrity Act), the Government Performance and Results Act of 1993, and the Federal Financial Management Improvement Act of 1996.<sup>2</sup> Accordingly, this performance and accountability report for fiscal 2003 supplies what we consider to be information that is the equivalent of that supplied by executive branch agencies in their annual performance and accountability reports.

On the pages that follow, we assess our performance for fiscal 2003 against our established performance goals and past performance. We also present our financial statements, the independent auditor's opinion, and a statement from our Inspector General. We issued our performance plan for fiscal 2004 in July 2003 and plan to issue our fiscal 2005 performance plan in early fiscal 2004. However, 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.

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<sup>1</sup>We have not set a target for work that we initiate ourselves, known as research and development. In fiscal 2002 and fiscal 2001, our research and development work represented 11 and 13 percent, respectively, of our engagement efforts.

<sup>2</sup>The Federal Manager's Financial Integrity Act requires ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each agency. The Government Performance and Results Act seeks to improve public confidence in federal agency performance by requiring that measurement, including setting goals and objectives and measuring progress toward achieving them. The Federal Financial Management Improvement Act intends to improve federal financial management by requiring that federal agencies implement and maintain financial management systems that comply with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level.





# CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING®

Presented to the

## General Accounting Office

In recognition of your outstanding efforts in preparing GAO's Performance and Accountability Report for the fiscal year ended September 30, 2002.

A Certificate of Excellence in Accountability Reporting is presented by the Association of Government Accountants to federal government agencies whose annual Performance and Accountability Reports achieve the highest standards in presenting their programs and financial affairs.



*John H. Hunsell, CGFM*  
Chief, Certificate of Excellence in Accountability Reporting Board

*Julian Berthogea*  
CGFM  
2002-2004 National President

U.S. GENERAL ACCOUNTING OFFICE  
SERVING THE CONGRESS AND THE NATION

### Performance and Accountability REPORT Fiscal 2002



- 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 service in addressing antiterror and various management challenges

- Save billions by bringing sound business practices to the Department of Defense
- Promote 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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# *How to Use This Report*

This report describes GAO's performance measures, results, and accountability processes for fiscal 2003. 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 our agencywide performance and use of resources in fiscal 2003. 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 by strategic goal in fiscal 2003, the targets we are aiming for in fiscal 2004, and for explanations of how we assess our 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 2003, including a letter from our 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 most significant accomplishments and contributions recorded in fiscal 2003, for our Inspector General's assessment of our agency's management challenges, and for our reports on our implementation of Public Law 106-303 (an act giving us certain human capital management flexibilities) and on information security reform measures.



The background of the slide is a grayscale American flag. A white rectangular box is superimposed over the center, containing an eagle's head on the left and a capitol dome on the right. The text is centered within this box.

**Part I:**  
**Management's**  
**Discussion and**  
**Analysis**

# Supporting the Congress and Benefiting the American People

In fiscal 2003, as in other years, the challenges that most urgently engaged the attention of the Congress helped to define our priorities. Our work on issues such as the nation's ongoing battle against terrorism, Social Security and Medicare reform, the implementation of major education legislation, human capital transformations at selected federal agencies, and the security of key government information systems all helped congressional members and their staffs to develop new federal policies and programs and oversee ongoing ones.

We performed our work in accordance with our core values and within our strategic plan. Our strategic plan sets forth four broad strategic goals that serve as the organizing principles for our work, which is as wide-ranging as the interests and concerns of the Congress. Teams supporting the first three goals completed congressional requests, mandates, and self-initiated work related to federal social programs, defense, and government efficiency and effectiveness. Staff in other teams and units implemented initiatives in support of the fourth goal—an internal one that challenges us to continuously improve our operations and resources (see [table I.1](#)).

**Table I.1: GAO's Goals and Selected Issues**

Goal	Description	Work emphasis
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.	Medicare, Medicaid, veterans' and military health care, public health, private health insurance, bioterrorism, education and training, child care, support for the needy, child support, child welfare, adoption, worker protection, pensions, Social Security, housing, community development, postal service, drug control, natural resources, environmental protection, transportation, the justice system, the Coast Guard, and customs.
2	Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.	Military capability and readiness, homeland security, information security, weapons systems acquisition, military contracting, the National Aeronautics and Space Administration (NASA), energy and nuclear energy issues, banking, financial markets, international affairs, trade, and debt collection.
3	Help transform the federal government's role and how it does business to meet 21 <sup>st</sup> century challenges.	Federal information management, architecture, and systems; tax administration; federal budget issues; governmentwide management; human capital; the Census; federal financial management; high-risk and performance accountability issues; and bid protests.
4	Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	GAO-specific initiatives related to improving client and customer service, staff recruitment and retention, staff development, work processes, management of institutional knowledge, information systems, and workplace security and safety.

Source: GAO.

## Agencywide Results

To support the Congress in meeting its constitutional responsibilities, we provided congressional committees, members, and staff with information in the form of reports; recommendations; testimonies; briefings; and expert comments on bills, laws, and other legal matters affecting the federal government. We monitored our performance of these efforts using seven annual performance measures, and the results of our work are reflected in our outstanding performance this year—we exceeded our performance targets for six of our seven measures (see [table I.2](#)).<sup>3</sup> Two of these measures—financial benefits and other benefits—illustrate the outcomes of our work and our value to the American people because they track federal dollars saved or better used and programmatic improvements implemented as a result of our work. Three additional measures track recommendations implemented, new products (i.e. issued in fiscal 2003) with rec-

ommendations, and recommendations made that help us to achieve financial and other benefits. Testimonies and timeliness measures indicate to a great extent how well we, as an information provider, serve our primary client, the Congress.

In fiscal 2003, we greatly exceeded two of our annual performance targets—other benefits and new recommendations made. We surpassed our target for other benefits by about 30 percent because we worked on issues that were of significant value to the Congress, the executive branch, and the public. Our work helped to shape legislation in a variety of areas and to improve government operations and functions. We exceeded our target for new recommendations made primarily because we issued several products that contained very specific, recommendations that helped the agencies being reviewed systematically implement changes needed. Our experience has shown that some agencies with which we have good working rela-

**Table I.2: Agencywide Summary of Annual Measures and Targets**

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003		Met?	2004 Target
					Target	Actual		
Financial benefits (billions)	\$20.1	\$23.2	\$26.4	\$37.7 <sup>a</sup>	\$32.5	\$35.4	Yes	\$35.0
Other benefits	607	788	799	906	800	1,043	Yes	900 <sup>b</sup>
Past recommendations implemented	70%	78%	79%	79%	77%	82%	Yes	79% <sup>b</sup>
New recommendations made	940	1,224	1,563	1,950	1,250	2,175	Yes	1,500 <sup>b</sup>
New products with recommendations <sup>c</sup>	33%	39%	44%	53%	50%	55%	Yes	50%
Testimonies	229	263	151	216	180	189	Yes	190 <sup>b</sup>
Timeliness	96%	96%	95%	96%	98%	97%	No	98%

Source: GAO.

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits in part caused our results to increase beginning with the fiscal 2002 results.

<sup>b</sup>On the bases of past performance and expected future work, we revised these targets after we issued our fiscal 2004 performance plan. The original targets were other benefits, 820; past recommendations implemented, 77%; new recommendations made, 1,250; and testimonies, 200.

<sup>c</sup>Not all products that we issue during the fiscal year contain recommendations—some are purely informational. This target allows us to respond to a variety of requests that may not result in recommendations.

<sup>3</sup>For more information on our annual performance measures and how we ensure the completeness and reliability of our performance data, see the Data Quality and Program Evaluation section in Part II of this report.

**Table I.3: Four-Year Averages for Selected GAO Measures**

Performance measure	1999	2000	2001	2002	2003
Financial benefits (billions)	\$19.5	\$21.0	\$22.4	\$26.9	\$30.7
Other benefits	451	581	683	775	884
New recommendations made	898	997	1,179	1,419	1,728
New products with recommendations	33%	35%	37%	42%	48%
Testimonies	212	233	225	215	205
Timeliness	88%	94%	95%	96%	96%

Source: GAO.

tionships are addressing problems we identify while our work is being conducted, which precludes the need for a recommendation. We anticipate that more agencies will take such proactive steps to improve their operations.

To help us examine trends over time, we also look at 4-year averages for all measures except past recommendations implemented because the number of recommendations made in each year is not constant and varies. Calculating 4-year averages minimizes the effect of an atypical result in any given year. Table I.3 shows that between fiscal 1999 and fiscal 2003 financial benefits reported have increased along with the number of other benefits reported, new recommendations made, and new products with recommendations. Our 4-year averages for timeliness increased between 1999 and 2001 and remained steady in 2002 and 2003.

In addition to our seven annual performance measures, we monitored our progress on 2-year performance goals that describe the work we planned to do to achieve our strategic goals and objectives. At the beginning of the assessment cycle in fiscal 2002, our senior managers identified the key efforts needed to achieve each of our 98 performance goals. Throughout the 2-year period, staff tracked work completed that related to these key efforts and goals. At the close of the cycle in fiscal 2003, senior managers determined that enough work had been completed to meet 95 percent of our 2-year performance goals. We did not meet five of our performance goals because resources were needed for other work requested by the Congress or, in the case of goal 4, for higher-priority work within GAO. In Part II of this report, we present detailed infor-

mation about the 2-year performance goals developed to measure our progress toward achieving each of our four strategic goals.

We also consider our actual performance to determine whether changes are needed to our targets for the next fiscal year. On the basis of our actual performance in fiscal 2003, we have adjusted many of the targets for our performance in fiscal 2004 since issuing our fiscal 2004 performance plan. Targets for the two measures that we assess at the agency-wide level—timeliness and the percentage of new products with recommendations—remain the same compared with the plan. For the other measures, we have made changes at the goal level and discuss these changes along with our results in Part II of this report. We have raised our targets for other benefits and new recommendations made in goals 2 and 3 and lowered the targets for goal 1 to reflect our past performance and expectations of future work. These changes result in a net increase to these numbers agencywide. Because our actual performance on percentage of past recommendations implemented has generally exceeded the target of 77 percent, we have raised the target to 79 percent across all goals, even though goal 1 has not been successful in meeting the target. During fiscal 2004, we will update our performance goals for each of our strategic goals; we plan to continue efforts on each of the performance goals that were not met by the end of fiscal 2003.

### Benefits Reported

Many of the benefits produced by our work can be quantified as dollar savings for the federal government (financial benefits), while others cannot (other benefits). Both types of benefits resulted from our efforts to provide information to the Congress that helped to (1) improve services to the public, (2)



change laws and regulations, and (3) promote sound agency and governmentwide management. (See figure I.1.)

*Financial Benefits*

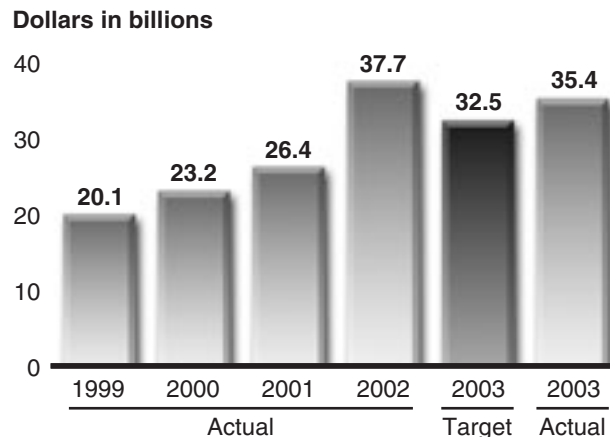
We produce financial benefits when our work contributes to actions taken by the Congress or the executive branch to

- reduce annual operating costs of federal programs or activities;
- lessen the costs of multiyear projects or entitlements; or
- increase revenues from debt collection, asset sales, changes in tax laws, or user fees.

In fiscal 2003, our work generated \$35.4 billion in financial benefits (see figure I.2). The funds made available in response to our work may be used to reduce government expenditures or reallocated by the Congress to other priority areas. To ensure conservative estimates of net financial benefits, reductions in operating cost are typically limited to 2 years of accrued reductions. Multiyear reductions in long-term projects, changes in tax laws, program terminations, or sales of government assets are limited to 5 years. In addition, all financial benefits are

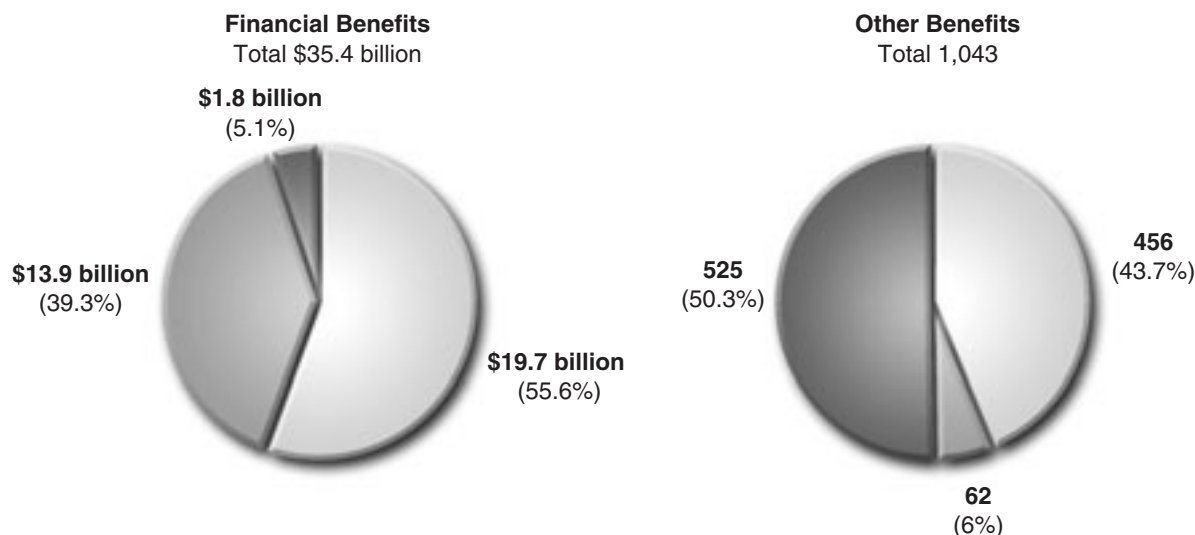
calculated in net present value terms. Our staff follow established policies and procedures in reporting of financial benefits. Estimates must be based on independent third-party sources and reduced by any identifiable offsetting costs. The third parties are typically the agency that acted on our work, a congressional committee, or the Congressional Budget Office.

**Figure I.2: GAO's Fiscal 2003 Financial Benefits**



Source: GAO.

**Figure I.1: Types of Benefits Recorded in Fiscal 2003 from Our Work**



**Categories**

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

Source: GAO.

**Table I.4: GAO's Selected Major Financial Benefits for Fiscal 2003 (Dollars in millions)**

Description	Amount
<b>Financial Benefits Exceeding \$1 Billion</b>	
<b>Updated the Consumer Price Index (CPI):</b> Recommended that the Bureau of Labor Statistics periodically update the expenditure weights of its market basket of goods and services used to calculate the CPI to make it more timely and representative of consumer expenditures. The Bureau agreed to do this every 2 years, and the CPI for January 2002 reflected the new weights. The adjustments have resulted in, among other things, lower federal expenditures on programs like Social Security that use the CPI to calculate benefits. (See app. 1, item 1.49.)	\$9,200
<b>Eliminated Medicaid's Upper Payment Limit Loophole:</b> Identified a weakness in Medicaid's upper payment limit methodology that allowed states to make excessive payments to local, government-owned nursing facilities and then have the facilities return the payments to the states, creating the illusion that they made large Medicaid payments in order to generate federal matching payments. Closing the loophole prevented the federal government from making significant federal matching payments to states above those intended by Medicaid. (See app. 1, item 1.2.)	5,900
<b>Made Funds Available for Lighter-Weight Weapons Systems:</b> Identified the Crusader artillery system as a duplicative weapons system that was inconsistent with the Department of the Army's plans to transform itself into a light-weight combat force. The Department of Defense (DOD) terminated the Crusader program, resulting in costs avoided. (See app. 1, item 2.15.)	3,900
<b>Reduced the Cost of Federal Housing Programs:</b> Improved management of the Department of Housing and Urban Development's unexpended balances resulting in the recapture of unobligated funds. (See app. 1, item 1.50.)	3,400
<b>Reduced the Cost of the DOD's Services Acquisition Process:</b> Examined the acquisition practices of leading commercial companies and recommended a more strategic approach for acquiring services at DOD. (See app. 1, item 3.4.)	1,700
<b>Avoided Costs Associated with an Increase in the Skilled Nursing Facilities Rate:</b> Determined that the Congress's increase in the nursing component of Medicare's daily rate for skilled nursing facilities had little effect on increasing the ratios of nursing staff to patients in these facilities. The nursing component increase expired on October 1, 2002, and despite arguments from the nursing facility industry, the nursing component increase has not been reinstated. (See app. 1, item 1.8.)	1,000
<b>Selected Financial Benefits between \$500 Million and \$1 Billion</b>	
<b>Recovered Supplemental Security Income (SSI) Overpayments:</b> Identified weaknesses in the Social Security Administration's (SSA) efforts to recover SSI overpayments that led to the development of SSA's automated reconciliation process. (See app. 1, item 1.20.)	\$990
<b>Reduced DOD's Implementation Risks and Purchase Costs for the Navy-Marine Corps Intranet:</b> Highlighted the need for various management controls related to the acquisition and implementation of the Navy-Marine Corps intranet. As a result, DOD modified the Navy-Marine Corps intranet contract and reduced contract amounts in fiscal 2002 and fiscal 2003, reduced program risks, and increased the likelihood that the program will be acquired and implemented successfully. (See app. 1, item 3.10.)	780
<b>Ensured Defense Emergency Response Funds are Better Targeted:</b> Identified millions of dollars in unobligated DOD Emergency Response funding, a portion of which the Congress rescinded or directed DOD to reallocate for other fund purposes. (See app. 1, item 2.48.)	517

Source: GAO.

To document financial benefits, our staff complete accomplishment reports. All accomplishment reports for financial benefits are documented and are reviewed by (1) another GAO staff member not involved in the work and (2) a senior executive in charge of the work. Also, a separate independent unit (Quality and Continuous Improvement)

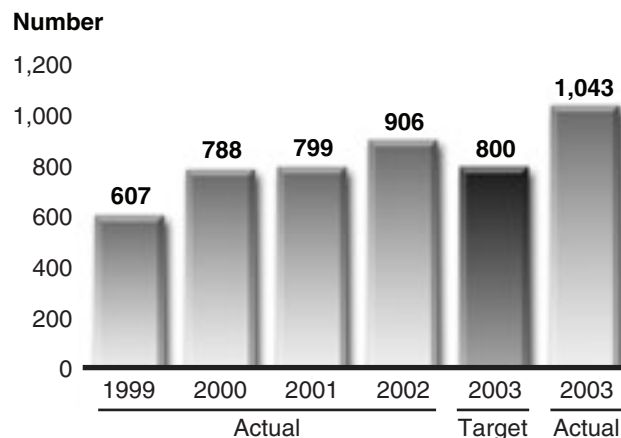
reviews all financial benefits and must approve benefits of \$100 million or more, which amounted to 95 percent of the total dollar value of benefits recorded in fiscal 2003. Additionally, our Office of Inspector General reviews all benefits of \$500 million or more.

Nine accomplishments accounted for nearly \$27.4 billion, or 77 percent, of our total financial benefits in fiscal 2003. Six of these accomplishments totaled \$25.1 billion. [Table I.4](#) lists selected major financial benefits for fiscal 2003 and describes the work contributing to financial benefits over \$500 million.

#### *Other Benefits*

Many of the benefits that flow to the American people from our work cannot be measured in dollar terms. During fiscal 2003, we recorded a total of 1,043 other benefits (see [figure I.3](#)). We documented 456 instances where federal agencies improved services to the public, 62 instances where information we provided to the Congress resulted in statutory or regulatory changes (see [table I.5](#)), and 525 instances where agencies improved core business processes or governmentwide reforms were advanced. These actions spanned the full spectrum of national issues from securing information technology systems to improving the performance of state child welfare agencies.

**Figure I.3: Other Benefits**



Source: GAO.

In addition to the financial and other benefits that accrued in fiscal 2003 from our work, we also achieved the following results.

**Table I.5: Examples of Public Laws to Which GAO Contributed during Fiscal 2003**

Legislation	GAO's contribution
Consolidated Appropriations Resolution, 2003, Pub. L. No. 108-7	The law includes GAO's recommended language that the administration's competitive sourcing targets be based on considered research and sound analysis.
Smallpox Emergency Personnel Protection Act of 2003, Pub. L. No. 108-20	GAO's report on the National Smallpox Vaccination program highlighted volunteers' concerns about losing income if they sustained injuries from an inoculation. This law provides benefits and other compensation to covered individuals injured in this way.
Postal Civil Service Retirement System Funding Reform Act of 2003, Pub. L. No. 108-18	Analyses performed by GAO and the Office of Personnel Management culminated in the enactment of this law that reduces the U.S. Postal Service's pension costs by an average of \$3 billion per year over the next 5 years. The Congress directed that the first 3 years of savings be used to reduce the Postal Service's debt and hold postage rates steady until fiscal 2006.
Accountability of Tax Dollars Act of 2002, Pub. L. No. 107-289	A GAO survey of selected agencies that are not subject to the Chief Financial Officers Act demonstrated the significance of audited financial statements in that community. GAO provided legislative language that requires 70 additional executive branch agencies to prepare and submit audited annual financial statements.
Emergency Wartime Supplemental Appropriations Act, 2003, Pub. L. No. 108-11	GAO drafted legislation that provides up to \$64 million to the Corporation for National and Community Service to liquidate previously incurred obligations, provided that the Corporation reports overobligations in accordance with the requirements of the Antideficiency Act.
Intelligence Authorization Act for Fiscal Year 2003, Pub. L. No. 107-306	GAO recommended that the Director of Central Intelligence report annually on foreign entities that may be using U.S. capital markets to finance the proliferation of weapons, including weapons of mass destruction, and this statute instituted a requirement to produce this report.

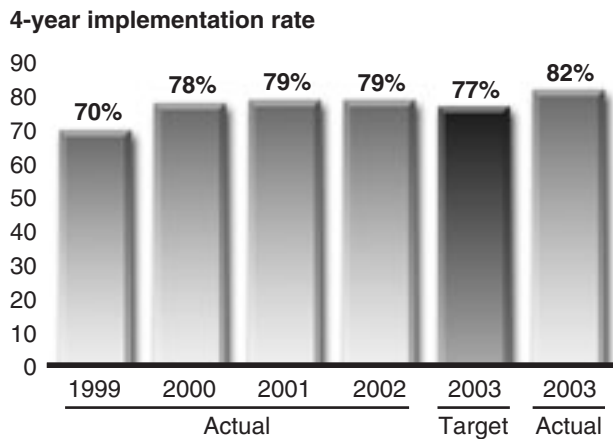
Source: GAO.

Note: This table includes public laws enacted in fiscal 2003 that were not listed in our *Fiscal 2002 Performance and Accountability Report*.

### Past Recommendations Implemented

One way we measure our effect on improving the government’s accountability, operations, and services is by tracking the percentage of recommendations that we made 4 years ago that have since been implemented. At the end of fiscal 2003, 82 percent of the recommendations we made in fiscal 1999 had been implemented (see figure I.4), 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.

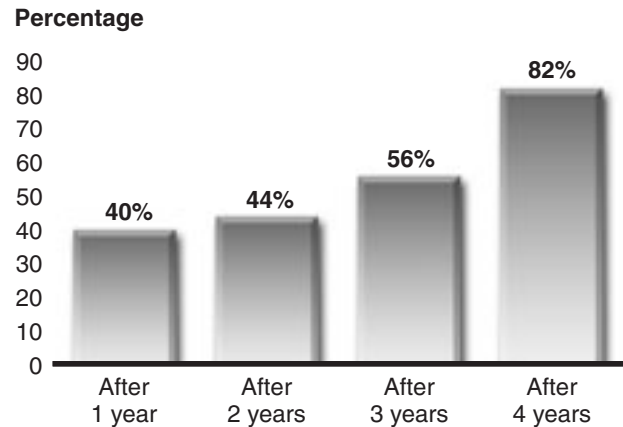
**Figure I.4: Past Recommendations Implemented**



Source: GAO.

The 82 percent implementation rate for fiscal 2003 exceeded our target for the year by 5 percentage points as well as our actual performance for fiscal 1999 through fiscal 2002. As figure I.5 indicates, agencies need time to act on recommendations. Therefore, we assess recommendations implemented after 4 years, the point at which past experiences have shown that if a recommendation has not been implemented it is not likely to be.

**Figure I.5: Cumulative Implementation Rate for Recommendations Made in Fiscal 1999**

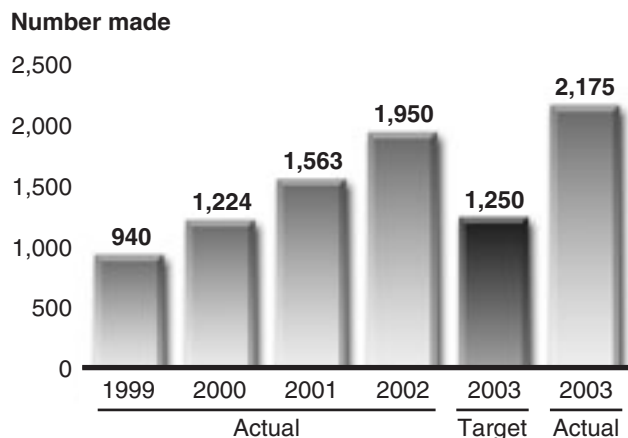


Source: GAO.

### New Recommendations Made

As shown in figure I.6, we made 2,175 new recommendations in fiscal 2003, which again exceeded our target for this year and actual performance the past 4 years. Though all of the products we issued did not include recommendations, developing implementable recommendations is an important part of our work for the Congress because it helps to improve how the government functions and often leads to financial and other benefits for the public. This year 415 of the 750 written products we issued (excluding testimonies) yielded the 2,175 recommendations reported.<sup>4</sup> These recommendations included, for example, those to the Secretary of State to develop clear policies on using the visa issuing process as a screen against potential terrorists and to the Secretary of Defense to better manage service procurement. For more information on new recommendations by strategic goal, see Part II of this report.

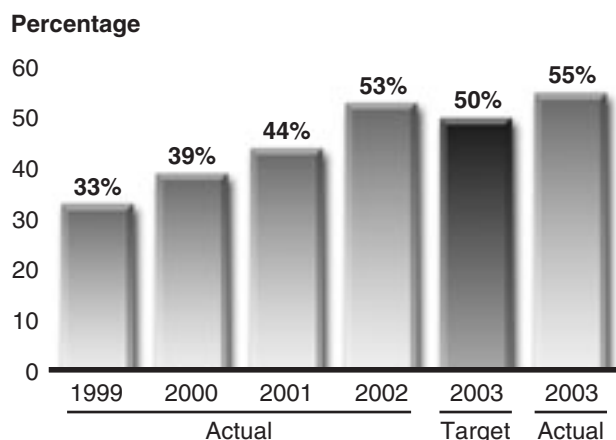
<sup>4</sup>We have an extensive product line including oral briefings, testimonies, and various types of other written products. The 415 written products cited here include chapter reports, letter reports, and numbered correspondence, some of which contain classified or sensitive material.

**Figure I.6: New Recommendations Made**

Source: GAO.

**New Products Containing Recommendations**

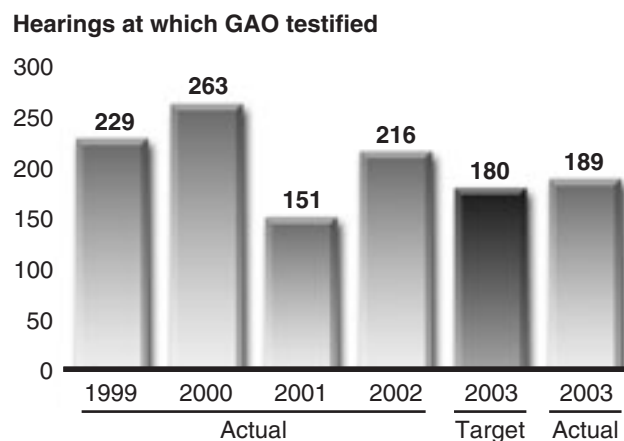
This year, 55 percent of the 750 written products we issued (excluding testimonies) included recommendations. (See [figure I.7](#).) This measure recognizes that a report containing a single broad recommendation may have more impact than a report containing a dozen specific ones. GAO also often provides products that are purely informational and contain no recommendations. Hence, the target provides ample leeway for responding to requests for informational products.

**Figure I.7: New Products with Recommendations**

Source: GAO.

**Testimonies**

During fiscal 2003, experts from our staff testified at 189 congressional hearings covering a wide range of complex issues (see [figure I.8](#)). For example, our executives testified on the placement of children in state care solely to obtain mental health services, actions needed to better prepare financial markets for terrorist attacks, and long-term challenges to transportation security and management challenges facing NASA. See the following page for a summary of issues we testified on by strategic goal in fiscal 2003.

**Figure I.8: Testimonies**

Source: GAO.

**Timeliness**

While the vast majority of our products—97 percent—were completed on time for our congressional clients and customers in fiscal 2003, we slightly missed our target of providing 98 percent of them on the promised day. (See [figure I.9](#).) We track the percentage of our products that are delivered on the day we agreed to with our clients because it is critical that our work be done on time for it to be used by policymakers. Though our 97-percent timeliness rate was a percentage point improvement over our fiscal 2002 result, we are taking steps to improve our performance in the future by encouraging matrix management practices among the teams supporting various strategic goals and identifying early those teams that need additional resources to ensure the timely delivery of their products to our clients.

# SELECTED ISSUES ON WHICH GAO TESTIFIED DURING FISCAL 2003



## GOAL 1 Well-Being and Financial Security of the American People

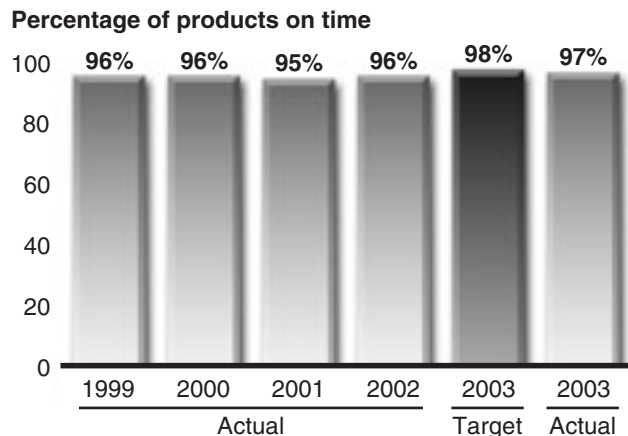
Nursing home quality	Foster care management	Coast Guard transformation
VA health care challenges	Teacher training	Postal Service transformation
Medicare fiscal challenges	Research on Head Start's effectiveness	Highway safety
SARS	Changes to VA's Disability Criteria	FAA reauthorization
Bioterrorism preparedness	Unemployment insurance	Restoring South Florida ecosystem
Social Security pension loophole	Workforce Investment Act	Handling invasive species
Risks facing PBGC's single-employer pension program	FBI reorganization	Postal Service anthrax testing
Social Security reform	Transportation for the disadvantaged	Social Security disability reviews

## GOAL 2 Changing Security Threats and Challenges of Globalization

Combating terrorism	Nuclear security challenges
Chemical and biological terrorism	Border security technology
DOD human capital reforms	Agriculture's debt collection challenges
Major weapons systems	Gulf War illnesses
Modernizing DOD's business systems	Preparing financial markets for terrorism
Conditions of overseas diplomatic facilities	Rightsizing U.S. overseas presence
Russia's nonproliferation program	Mutual funds
Customs radiation detection devices	

## GOAL 3 Transforming the Federal Government's Role

Federal government restructuring efforts	Paid tax preparer services
Federal paperwork burden	Federal sourcing and acquisition
Federal performance management systems	Strategies to address the federal government's improper payments
Implementing the President's Management Agenda	Government credit card vulnerabilities
Fragmented federal grant system	Governmentwide financial management reforms
Performance budgeting	OMB's E-government initiatives
Effective use of federal funds	

**Figure I.9: Timeliness**

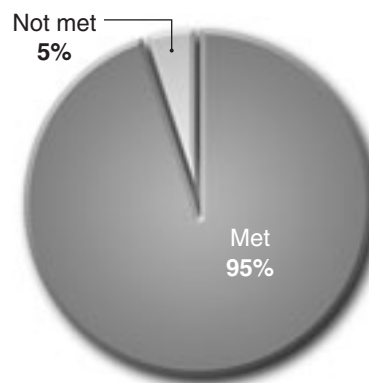
Source: GAO.

**Two-year Performance Goals**

In addition to our seven annual measures, we track our progress on 98, 2-year performance goals. At the end of fiscal 2003, we had met 95 percent of our performance goals (see figure I.10). These performance goals measure the extent to which we did the work we had planned to do to support the Congress during fiscal 2002 and fiscal 2003. Our senior managers developed these performance goals at the beginning of the assessment cycle (fiscal 2002) based on their knowledge of the specific subject area and in consultation with our customers and clients. However, because congressional or GAO priorities changed over the 2-year period, we were not able to meet some of these performance goals because resources had to be shifted away from planned work to address new or more urgent priorities. In such circumstances, we do not view an unmet performance goal as a failure. Rather, we believe it shows that we are responsive in carrying out our mission of serving the Congress and the nation and devoting our resources to efforts of critical importance. We consider these performance goals qualitative rather than quantitative because our senior managers must judge whether enough work on the key efforts has been performed to achieve a performance goal. In Part II of this report, we list by strategic goal the 2-year performance goals supporting each strategic objective, indicate whether the performance goal was met, and list the criteria we use for determining whether the goal was met.

**Figure I.10: Two-Year Performance Goals**

98 two-year performance goals



Source: GAO.

*A Balanced Scorecard*

In addition to our annual and 2-year performance measures, we have been developing over the last 4 years an expanded approach for assessing our performance that incorporates features of Robert S. Kaplan and David P. Norton's "balanced scorecard" concept.<sup>5</sup> We believe our balanced scorecard will allow us to better monitor, track, and report our achievement of results and better measure our efficiency.

The balanced scorecard is a tool that helps executives identify financial as well as nonfinancial indicators that provide a "balanced" picture or comprehensive assessment of an organization's performance. This approach addresses the limitations of financial performance reporting and recognizes that in a knowledge-based age, investments in an organization's intangible assets—employees, databases, and information technologies—are as critical to its success as its tangible assets—physical assets and access to capital. The balanced scorecard concept also recognizes that financial reporting alone cannot communicate the full story about an organization's performance. Financial indicators cannot measure an organization's activities, operating processes, innovations, or customer relationships that create value. Nor can they account for the political, regulatory, or societal constraints that impact on the organization. Thus, the balanced scorecard supplements measures of financial performance with other

<sup>5</sup>*The Balanced Scorecard*, Robert S. Kaplan and David P. Norton, 1996.

measures that indicate, for example, how well the organization is developing, nurturing, and mobilizing its employees to accomplish the mission of the organization. In accordance with the concept, the measures included in a balanced scorecard should be directly linked to the organization's vision and strategy.

The balanced scorecard that we are developing reflects our mission and strategic goals and will focus on three key areas: clients, results, and people.

- **Clients.** Our strategy in this area draws upon a variety of data sources to obtain information on the services we are providing to our congressional clients. To judge how well we are serving our clients, we will assess direct client feedback on individual products and testimonies via the Comptroller General's discussions with congressional leadership and members; continuous outreach to congressional committees by our senior executives and managers; and a new Web-based, client feedback survey of congressional staff. Last year, we tested the Web-based survey with a sample of 113 recipients of our written products in 2002. We will also continue to count the number of testimonies given and track how often we deliver products on time to our customers.
- **Results.** Focusing on results—and the efficiency of the processes needed to achieve them—is fundamental to accomplishing our mission. Our strategy in this area has been to revisit, modify, and restructure our current measures. To assess our results, we will continue to use most of the performance measures discussed previously in this report: financial benefits, other (nonfinancial)

benefits, recommendations implemented, recommendations made, and new products with recommendations.

- **People.** As our most important asset, our people define our character and capacity to perform. Our strategy in this area draws upon a variety of data sources to create a comprehensive picture of our performance. To determine how well we are acquiring, maintaining, and maximizing our human resources, we plan to measure how well we are attracting and retaining high-quality staff; developing, supporting, and using staff; and leading, recognizing, and listening to staff. We are currently examining the use of various indicators that will help us to collectively measure our performance in each of these areas. Our annual confidential survey of employees will provide some of the information that we will use to gauge the agency's performance on how well staff believe their skills are being developed and used and whether we engender a positive, productive work environment and provide effective leadership. (See [table I.6.](#))

We have identified benchmarks and are developing baselines for our balanced scorecard measures. For example, we will use our new hire acceptance rate and our attrition rate for the last two fiscal years—81 percent and 8.8 percent, respectively, in fiscal 2002 and 72 percent and 7.7 percent, respectively, in fiscal 2003—to help us set challenging, yet reasonable targets to support our people measure for attracting and retaining staff. We plan to establish targets for our client and people measures—as we already have for our results measure—analyze any gaps between measures and metrics, and assess our performance by strategic goal using all three of the measures—clients, results, and people—in fiscal 2004 through 2005.



**Table I.6: Preliminary Indicators of GAO's Performance in the People Area**

People measure	Indicator	Metric
Attracting and retaining staff	—Success in attracting a quality workforce	—Ratio of the number hired to the number we planned to hire (hiring goals)
	—New hire acceptance rate	—Ratio of the number of applicants accepting offers to the number of offers made
	—Education levels of new hires	—Percent of new hires with advanced degrees
	—New hires' major areas of study	—Ratio of the number of staff leaving GAO during the fiscal year to the average number of employees on board during the year
	—Attrition	
Developing, supporting, and using staff	—Staff development	—Employee responses to annual, confidential survey
	—Staff utilization	—Number of continuing professional education units staff earned during a 2-year period
Leading, recognizing, and listening to staff	—Organizational climate	—Employee responses to annual, confidential survey
	—Leadership	

Source: GAO.

## GAO's High-Risk Program

Issued to coincide with the start of each new Congress, our high-risk update lists government programs and operations in need of special attention or transformation to ensure that the federal government operates in the most economical, efficient, and effective manner possible. Our latest report, released in January 2003, spotlights more than 20 troubled areas across government.<sup>6</sup> Many of these areas involve essential government services, such as Medicare, housing programs, and postal service operations, that directly affect the well-being of the American people.

Since our high-risk program began in 1990, we have issued periodic updates of our high-risk series, identifying and reporting on federal programs and operations that have greater vulnerabilities to waste, fraud, abuse, and mismanagement than other programs or have major challenges associated with their economy, efficiency, or effectiveness. Although some agencies have made strong efforts to address the deficiencies cited in the high-risk report—and some of the programs included on our high-risk list since 1990 have improved enough to be removed from the list—we continue to identify

many other areas of high risk and have increasingly used the high-risk program to draw attention to the challenges faced by government programs and operations in need of broad-based transformations.

Our high-risk program includes five high-risk areas added in 2003:

- Implementing and transforming the new Department of Homeland Security;
- Modernizing federal disability programs;
- Federal real property;
- Medicaid program; and
- Pension Benefit Guaranty Corporation's (PBGC) single-employer pension insurance program.<sup>7</sup>

PBGC's single-employer insurance program, the most recent addition to our high-risk list, insures the pension benefits of over 34 million participants in more than 30,000 private defined benefit plans. We designated this program as high risk primarily because the program moved from a \$9.7 billion accumulated surplus in 2000 to a \$3.6 billion accumulated deficit in fiscal 2002, brought about by the termination of a number of large underfunded pension plans of bankrupt companies. Many of these

<sup>6</sup>U.S. General Accounting Office, *High Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

<sup>7</sup>We added this issue in July 2003 after we published the January 2003 update.

companies were in troubled industries like steel or aviation. In addition, the program's risk pool has become concentrated in industries affected by global competition and the movement from an industrial- to a knowledge-based economy. For example, in 2001, almost half of all program-insured participants were in plans sponsored by firms in manufacturing industries. Given significant risk of termination of other large underfunded plans, we determined that this program warranted highlighting as one in need of congressional and agency action.

In fiscal 2003, we also removed the high-risk designation from two programs: SSA's SSI program and the Asset Forfeiture programs administered by the U.S. Departments of Justice and the Treasury.

- We designated SSI as a high-risk area in 1997 after several years of reporting on specific instances of abuse and mismanagement, increasing overpayments, and poor recovery of outstanding SSI overpayments. SSA's actions since then included developing a major SSI legislative proposal with numerous overpayment deterrence and recovery provisions that has been enacted. The legislation directly addresses many of our prior recommendations. In addition, SSA initiated a number of internal administrative actions to further strengthen SSI program integrity and increased the number of SSI financial re-determinations that it conducts and the level of resources in its Office of Inspector General devoted to investigating SSI fraud and abuse.
- We first designated the Asset Forfeiture programs as a high-risk area in 1990 because of shortcomings in the management of and accountability for seized and forfeited property and the potential for cost reduction through administrative improvements and consolidation of the programs' post-seizure management and disposition of noncash seized property, such as drugs and firearms. Since then the Departments of Justice and the Treasury have made substantial progress in improving the management of and

accountability for seized and forfeited property and have demonstrated a commitment to communicate and coordinate where joint efforts could help reduce costs and eliminate duplicative activities. For example, Justice's Drug Enforcement Administration and Federal Bureau of Investigation have taken many actions to address our recommendations to improve physical safeguards over drugs and firearms evidence and strengthen accountability for such evidence. In addition, Treasury's Forfeiture Fund and Justice's Asset Forfeiture Fund and Seized Asset Deposit Fund have strengthened their financial management and accountability over seized and forfeited property, in part evidenced by the unqualified opinions on these entities' financial statements over the past several years.

In fiscal 2003, we issued 208 reports and delivered 112 testimonies related to high-risk areas, and our work has resulted in financial benefits totaling almost \$21 billion. In the past, our focus on high-risk issues has helped the Congress enact a series of governmentwide reforms to strengthen financial management, improve information technology, and create a more results-oriented government. More recently, the President's Management Agenda for reforming the federal government now mirrors many of the management challenges and program risks that we have reported in our Performance and Accountability Series and High-Risk Series, including a governmentwide initiative to focus on strategic management of human capital.

We have an ongoing dialog with the Office of Management and Budget (OMB) regarding the high-risk areas, and OMB is working with agency officials to address many of our high-risk areas. Also, top management challenges reported by Inspectors General at many executive branch agencies are similar to issues in our high-risk report.

To learn more about our work on the high-risk areas shown in [table I.7](#) or to download the update in full, go to [www.gao.gov/pas/2003/](http://www.gao.gov/pas/2003/).

Table I.7: GAO's 2003 High-Risk List

2003 High-Risk Areas	Year Designated High Risk
<b>Addressing Challenges In Broad-based Transformations</b>	
Strategic Human Capital Management <sup>a</sup>	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook <sup>a</sup>	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 <sup>a</sup>	2003
Federal Real Property <sup>a</sup>	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 <sup>a</sup>	1990
Medicaid Program <sup>a</sup>	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
PBGC Single-Employer Insurance Program <sup>a</sup>	2003
<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

Source: GAO.

<sup>a</sup>Additional authorizing legislation is likely to be required as one element of addressing this high-risk area.

## Managing Our Resources

### Resources Used to Achieve Our Fiscal 2003 Performance Goals

Our financial statements for fiscal 2003 received an unqualified opinion from an independent auditor. The auditor found our internal controls to be effective with no material weaknesses identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 for financial systems. The auditor also found no instances of noncompliance with the laws or regulations in the areas tested. The financial statements and their accompanying notes, along with the auditor's report, appear in Part III of this report. [Table I.8](#) summarizes key financial data.

Compared with the statements of large and complex agencies in the executive branch, our 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 with most of its resources devoted to the human capital needed for its mission of supporting the Congress with information and analysis.

Our budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. For fiscal 2003, our total budgetary resources of \$474.3 million increased by \$32 million from fiscal 2002. This increase consists primarily of funds needed to cover mandatory and uncontrollable costs and \$4.8 million for nonrecurring enhancements for the safety and security of our staff.

Our total assets were \$128.2 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 2003 because of differences from the prior year-end in the timing of payments. Total liabilities of \$85.6 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 decreases in both accounts payable and deferred lease revenue. The decrease in accounts payable is a result of the timing of payments made on several large contracts. In fiscal 2003, we amortized the remaining balance of deferred lease revenue liability as rental credits to the U.S. Army Corps of Engineers that rents space in the GAO headquarters building.

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

	Fiscal 2002	Fiscal 2003
Total budgetary resources	\$442.6	\$474.3
Total outlays	\$427.8	\$451.3
Net cost of operations		
Goal 1: Well-being and financial security of the American people	\$178.3	\$186.4
Goal 2: Changing security threats and challenges of globalization	110.5	122.0
Goal 3: Transforming the federal government's role	141.0	144.9
Goal 4: Maximizing the value of GAO	25.3	20.0
Less reimbursable services not attributable to goals	(2.1)	(2.2)
Total net cost of operations <sup>a</sup>	\$453.0	\$471.1
Actual full-time equivalents	3,210	3,269

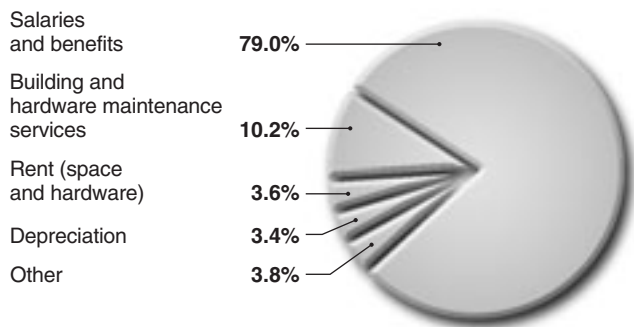
Source: GAO.

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

The net cost of operating GAO during fiscal 2003 was approximately \$471 million. As shown in [figure I.11](#), expenses for salaries and related benefits accounted for 79 percent of our net cost of operations in fiscal 2003.

**Figure I.11: Use of Funds by Category**

**Percentage of total net costs**



Source: GAO.

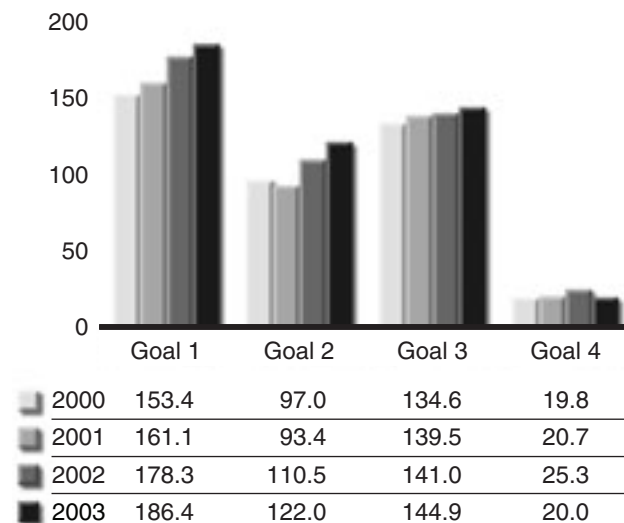
We report net cost of operations according to our four strategic goals, consistent with our strategic plan. Activities in goals 1 and 2 were responsible for most of the increase in our net cost of operations between fiscal 2002 and fiscal 2003. Goal 1 saw an increase due to expanded efforts in the area of education, workforce, and income security. In goal 2 additional resources were focused on issues in the area of military capabilities and readiness.

[Figure I.12](#) and [I.13](#) show our net costs by goal for fiscal 2000 through fiscal 2003. [Figure I.12](#) shows the costs unadjusted for inflation, while [figure I.13](#) shows the same costs in 2003 dollars, that is, adjusted for inflation.

As these figures indicate, 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. We expect this goal to continue to represent the largest share of our costs.

**Figure I.12: Net Costs by Goal, Unadjusted**

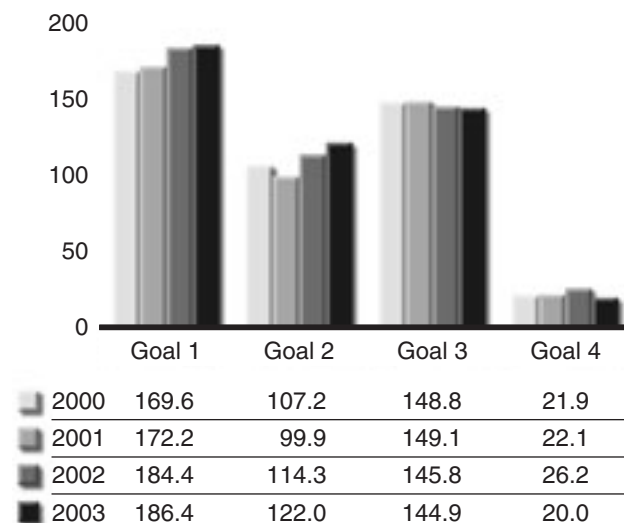
**Dollars in millions**



Source: GAO.

**Figure I.13: Net Costs by Goal, Adjusted for Inflation**

**Dollars in millions**



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 2003 appears in Part III of this report after our financial statements and accompanying notes. Current members of the committee are

- Sheldon S. Cohen (Chairman), a certified public accountant and practicing attorney in Washington, D.C.; a former Commissioner and Chief Counsel of the Internal Revenue Service; and a Senior Fellow of the National Academy of Public Administration.
- Edward J. Mazur, CPA; Member of the Governmental Accounting Standards Board; Vice President for Administration and Finance of Virginia State University; former State Comptroller of Virginia; and a former Controller of the Office of Federal Financial Management in OMB.
- Charles O. Rossotti, a former Commissioner of the Internal Revenue Service and co-founder of American Management Systems, Inc., an international business and information technology consulting firm.

**Planned Resources to Achieve Our Fiscal 2004 Performance Goals**

We have received budget authority of \$466.3 million for fiscal 2004 to maintain current operations for serving the Congress as outlined in our strategic plan and to continue initiatives to enhance our human capital; support business processes; and ensure the safety and security of our staff, facilities, and information systems. This funding level will allow us to maintain our authorized level of 3,269 full-time equivalent (FTE) personnel. Our resources

include \$460.3 million in direct appropriations and estimated revenue of \$6 million from reimbursable audit work and rental income. Our fiscal 2004 resources represent a modest 2 percent increase over fiscal 2003 resources—primarily for mandatory pay and uncontrollable costs. Savings from nonrecurring fiscal 2003 investments will help offset needed funds for further investments in critical areas, such as security and human capital.

Table I.9 provides an overview of how our budgetary and human capital resources will be allocated among our four strategic goals.

During fiscal 2004, we plan to sustain our investments in maximizing the productivity of our workforce by continuing to address key management challenges: human capital and information and physical security. We will continue to take steps to “lead by example” within the federal government in connection with these and other critical management areas. On the human capital front, to ensure our ability to attract, retain, motivate, and reward high-quality staff, we plan to devote additional resources to our employee training and development program. We will target resources to continue initiatives to address skill gaps, maximize staff productivity, and increase staff effectiveness by updating our training curriculum to address organizational and technical needs and training

**Table I.9: Fiscal 2004 Budgetary Resources by Strategic Goal**  
(Dollars in millions)

Strategic goal	FTEs	Amount
<b>Goal 1</b>		
Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.	1,236	\$177.1
<b>Goal 2</b>		
Provide timely, quality service to the Congress and the federal government to respond to changing threats and the challenges of global interdependence.	920	131.8
<b>Goal 3</b>		
Help transform the federal government’s role and how it does business to meet 21 <sup>st</sup> century challenges.	967	138.6
<b>Goal 4</b>		
Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	146	18.7
<b>Total</b>	<b>3,269</b>	<b>\$466.3</b>

Source: GAO.

Note: Numbers do not total due to rounding.

new staff. Also, to enhance our recruitment and retention of staff, we will continue to offer the student loan repayment program and transit subsidy benefit established in fiscal 2002. In addition, we will continue to focus our hiring efforts in fiscal 2004 on recruiting talented entry-level staff.

On the information security front, in fiscal 2004, we plan to implement tools that will ensure a secure environment, detect intruders in our systems, identify appropriate users, and recover in the event of a disaster. We plan to apply additional intrusion-detection software to our internal servers and complete our disaster recovery plan.

We are continuing to make the investments necessary to enhance the safety and security of our people, facilities, and other assets for the mutual benefit of GAO and the Congress. In fiscal 2004, we plan to complete the installation of our building access control and intrusion-detection system and supporting infrastructure and provide life-safety devices.

In addition, we plan to continue initiatives designed to further increase employees' productivity, facilitate knowledge-sharing, maximize the use of technology, and enhance employee tools available at the desktop. We also will continue to devote resources to reengineer the information technology (IT) systems that support business processes, such as our engagement tracking system and our human capital operations.

## *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 in the following sections, our 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 other 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 our performance.

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

As the audit, evaluation, and investigative arm of the Congress, we have a unique role to play. Within the legislative branch, we are the only agency with staff in the field, conducting performance analyses and financial audits 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, government-wide or multiagency in scope, and initiated by requests from the Congress.

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

- evaluating federal policies and the performance of agencies;
- overseeing government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- investigating whether illegal or improper activities are occurring;
- analyzing the financing for government activities;
- conducting 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 planned to complete by the end of fiscal 2003 using the strategies above. In our annual performance plan for fiscal 2005, we will issue our performance goals covering the work we plan to do in fiscal 2004 and fiscal 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 our strategic and annual work planning and
- initiate and support collaborative national and international audit, technical assistance, and other knowledge-sharing efforts.

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

### Strategic and Annual Work Planning

Through a series of forums, advisory boards, and panels, and a newly established speakers' series, we gather information and perspectives for our strategic and annual performance planning efforts. In fiscal 2003, the Comptroller General convened various experts from the public and private sectors in a series of forums and panels intended to enhance our understanding of emerging issues and to identify opportunities for action:

- In November 2002, we issued a report that summarized the findings of a forum entitled *Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*.
- In December 2002, we convened a corporate governance forum to discuss challenges facing regulators, the accounting profession, and boards of directors in improving public confidence in U.S. corporate governance and accountability systems.

- In February 2003, we and the National Academies hosted a forum with national leaders and experts on key national indicators. Among other things, forum participants (1) examined how the world's leading democracies measure national performance, (2) explored what the United States might do to improve its approach, (3) identified important areas to measure in assessing performance, and (4) discussed how the United States' approaches might be led and implemented.
- In August 2003, we launched the speakers' series "Conversations on 21st Century Challenges" wherein prominent leaders discuss emerging themes and their implications for public policy.

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 our strategic direction and specific initiatives. Through the National Intergovernmental Audit Forum, chaired by the Comptroller General, and 10 regional intergovernmental audit forums, we consult regularly with federal Inspectors General and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate.

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

- The Advisory Council on Government Auditing Standards, provides us guidance on promulgating auditing standards. The council played a significant role in revising the June 2003 *Government Auditing Standards* ([www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm)), commonly referred to as the "Yellow Book," which was updated to redefine the types of audits and services covered by the standards, provide consistency for certain requirements among all types of audits, and strengthen the standards in



some areas. These standards articulate 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 revised standards would be generally accepted and feasible.

- The Accountability Advisory Council, made up of experts in the financial management community, advises us on audits of the U.S. government's consolidated financial statements and emerging issues involving financial management and accountability reporting. In 2003, the council also provided insights that were valuable in carrying out various GAO corporate governance studies mandated by the Sarbanes-Oxley legislation.
- The Executive Council on Information Management and Technology, whose 19 members are experts from the public and private sectors and representatives of related professional organizations, met in May 2003 to discuss high-risk and emerging issues. The results of the discussions on high-risk areas—modernization, cyber security, the Department of Homeland Security's information technology, file sharing, and security and privacy issues—will be used to support ongoing and planned work. The results of the discussions on emerging issues will be used to support the development of an overarching issues framework for our future IT work.
- The Comptroller General's Educators' Advisory Panel, composed of deans, professors, and other academics from prominent universities across the United States, met with us in June 2003 to advise the agency on recruiting, retaining, and developing staff and strategic planning matters.

Internationally, we participate in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of the national audit offices of 184 countries. During fiscal 2003, we led a 10-nation task force to develop a 5-year strategic plan—the first in INTOSAI's 50-year history. The plan's framework was approved at the October 2002 Governing Board meeting and will be circulated to all INTOSAI members for comment and approval in 2004. The Comptroller General also leads the Auditor General Global Working Group, in which the heads of our counterparts from 15

countries meet annually to discuss mutual challenges, share experiences, and identify opportunities for collaboration with each other. The 2003 meeting featured a joint session with Office of Economic Cooperation and Development budget officials on long-range fiscal challenges and an initiative in which members will participate in peer reviews of each others' audit institutions.

### **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 other technical committees. As a member of the public debt committee, we 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. 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. To help ensure that the public sector perspectives are reflected in the International Federation of Accountants standards development project, we collaborated 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 2003, 16 fellows from Africa, Asia, Latin America, the South Pacific, the Caribbean, 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. As part of our strategy to promote continuous learning and sustainability once the fellows return to their countries, we are working with major donors—such as the World Bank and the U.S. Agency for International Development—to identify or support relevant capacity building projects in fellows' institutions. Our partnerships with the Inter-

american Development Bank, the INTOSAI Development Initiative, and the Organization of Latin American and Caribbean Audit Institutions resulted in the design and delivery of performance audit courses for our counterparts in Latin America. Plans are underway for additional training courses in environmental auditing and information technology.

Among the other collaborative activities undertaken by our staff during fiscal 2003 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 Financial Audit Manual ([www.gao.gov/special.pubs/01765G/](http://www.gao.gov/special.pubs/01765G/)).
- 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 on a number of engagements. For example, the Council is assisting a GAO team that is examining "best practices" used by private sector companies to prepare for disastrous events while maintaining operations.
- As part of an effort led by the State Auditor of Louisiana (that included the Office of Inspector General of the U.S. Department of Transportation and the State Auditors of Arkansas, Connecticut, New York, and Rhode Island), we helped to develop a guide for evaluating security efforts within the nation's transportation system.
- In February 2003, we issued a report—developed with the participation of auditors from 11 states—that contained recommendations for improving the security of the food system.
- Our Office of Special Investigations conducted a joint investigation with the Department of Veterans' Affairs Office of Inspector General

concerning alleged irregularities in contract administration. The investigation identified improper billing practices for open market items by the contractor and poor government oversight of the \$20 million in annual charges.

- In October 2002, we issued a report on invasive species that was based on a close working relationship with Canada's Auditor General.

### Using Our Internal Experts

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

### Addressing Management Challenges That Could Affect Our Performance

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 our strategic goal 4, we establish performance goals focused on each of our manage-

ment challenges, track our progress in completing the key efforts for those performance goals quarterly, and report whether the performance goals have been met or not met at 2-year intervals. We have also asked our Office of Inspector General to examine management's assessment of the challenges and the agency's progress in addressing them. Its assessment can be found in this report in appendix 2.

In fiscal 2003, we had three major management challenges. We have reported in the past on our efforts to address two of these challenges—human capital and physical security. Although we have made progress with both of these challenges, we still have work to do. The third challenge, information security, was added in fiscal 2003. This challenge replaced a previous IT challenge because we had completed our work on that original management challenge. However, independent reviews of our information security program indicated that we needed to further tighten IT security. Moreover, the potential for harm and threats to IT systems and information assets has never been greater, nor has there ever been a greater need for planning for disaster recovery and continuity of operations given continuing terrorist threats and events.

### **The Human Capital Challenge**

Given our 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 run the risk of being unable to meet the expectations of the Congress and the nation. However, we are continuing to make significant improvements in our human capital management. During fiscal 2003, we developed our first formal and comprehensive strategic plan for human capital. The purpose of the plan is to communicate both internally and externally GAO's strategy for becoming a model professional services organization, including how we plan to attract, retain, motivate, and reward a high-performing and top-quality workforce. GAO expects to publish the plan early in fiscal 2004 and make it available on GAO's Web site. We also fully implemented our workforce planning process, addressing the size, deployment, and

profile of our staff to ensure we have the appropriate resources strategically placed to pursue our goals and objectives now and in the future.

We also built on our fiscal 2002 accomplishments in attracting and retaining a diverse workforce with the knowledge, skills, and abilities to meet the new century's challenges. We expanded the scope of our college recruiting and hiring program to focus on gaps identified during our workforce planning effort. The Human Capital Office worked with teams to help identify and reach prospective graduates with the required skill sets. In addition, we focused the intern program on attracting student interns with the skill sets needed for our analyst positions since many of our interns are hired as entry-level employees upon successful completion of their internships. To promote the retention of staff with critical skills and 1 to 3 years of GAO experience, we continued to utilize recent legislation (5 U.S.C. 5379) authorizing federal agencies to offer student loan repayments in exchange for commitments to federal service. In accordance with Office of Personnel Management regulations, we disbursed repayments of between \$4,000 and \$6,000 directly to lending institutions during fiscal 2003 for 247 employees, each of whom signed a 3-year agreement to continue working at GAO.

Finally, we have requested that the Congress enact additional human capital legislation for us that would (1) make permanent our 3-year authority to offer early outs and buyouts, (2) allow us to set our own annual pay adjustment system separate from the executive branch, (3) permit us to set the pay of an employee demoted as a result of workforce restructuring or reclassification to keep his or her basic pay but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer has some benefit to us but does not meet the legal requirements for reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal experience in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change our legal name from the "General Accounting Office" to the "Government Accountability Office."

### The Physical Security Challenge

In the aftermath of the September 11 terrorists attacks, subsequent anthrax incidents, and the recent Operation Enduring Freedom and Afghanistan operations, our ability to provide a safe and secure workplace was challenged. Protecting our people and our assets is critical to our ability to carry out our mission. We have devoted additional resources to this area and have implemented measures, such as upgrading the headquarters fire alarm system and installing a parallel emergency notification system. We have also designed several security enhancements to be installed in fiscal 2004, such as vehicle restraints at the guard ramps; ballistic-rated security guard booths; vehicle surveillance equipment at the garage entrances; and state-of-the-art electronic security comprised of intrusion detection, access control, and closed-circuit surveillance systems. We have made great progress in enhancing our communication with staff. We distributed a Shelter in Place plan, provided Emergency Preparedness briefings for staff, and conducted the third annual Security Fair to disseminate information on security at the workplace and at home. We drafted an Emergency Response Handbook for headquarters occupants. To further increase the security of the headquarters building, we have obtained access to the National Crime Information Center Database to conduct minimal investigations on visitors, vendors, couriers, and non-GAO employees entering the building. To ensure our continuity of operations should GAO have to vacate its headquarters due to an emergency, we made arrangements for an alternate facility to house our operations. Finally, we completed a study of personal protective equipment and based on the resulting decision paper, we have purchased escape hoods, bottled water, and glow sticks. Staff will be trained in the use of this equipment during fiscal 2004.

### The Information Security Challenge

Protecting our information assets and ensuring information systems security and disaster recovery that allow for continuity of operations is a critical requirement for us. 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 have a wide range of initiatives underway to strengthen

and protect the security of our information systems and data. Our information security plan is in appendix 4. As part of our continuing disaster recovery efforts and emergency preparedness plan, we upgraded the level of telecommunications services between our disaster recovery site and headquarters, expanding our remote connectivity capability, and improving response time and transmission speed. To further protect our data and resources, we drafted an update to our Information Systems Security Policy, issued network user policy statements, implemented hardware and software upgrades to harden our internal network security, significantly expanded our efforts in intrusion detection, and addressed concerns raised during the most recent network vulnerability assessment. Further, we deployed computer software to our senior management that provides authoritative and timely assurance that critical e-mail has been received intact—without changes or modifications.

### 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.
- We perform self-initiated research on a limited number of selected topics.

Another external factor is the extent to which we can obtain access to certain types of information. With concerns about operational security being unusually high at home and abroad, we may have more difficulty obtaining information and reporting on sensitive issues. Historically, our auditing and information gathering 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 national and 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 our access authority as necessary and appropriate.





**Part II:**  
Performance  
Information

## How We Assess Our Performance

The hierarchy of elements in our strategic plan establishes the structure we use in discussing our performance. As shown in [figure II.1](#), at the top of the hierarchy are our 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 as well as 7 annual performance measures. 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.

**Figure II.1: 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 we are delivering

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

### *Our Strategic Management Structure*

Our work is aligned under four strategic goals that are designed to fulfill our 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 we provide. We often refer to these as our external goals as opposed to the fourth strategic goal, which is our internal goal. This internal goal focuses on improving our own agency so that it 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. (The framework diagram on page 3 provides an at-a-glance summary of all the strategic goals and objectives.) Under strategic goal 1, for instance, are eight strategic objectives that call for us to address issues that range from health care needs and financing to a secure and effective national physical infrastructure. All together, we have 21 strategic objectives. Our organizational units 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 us more flexibility in deploying the agency's resources to meet congressional requests on complex issues.

Every 2 years, as a new Congress convenes, we revisit our goals and objectives through an update of our strategic plan. The update includes an "environmental scan" involving staff at headquarters in Washington, D.C., 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 each of our organizational units about the Congress's likely needs, the federal government's most pressing challenges, and the strategies we can use to address these needs and challenges in the near and long terms. Key to the update process is active consultation with Members of the 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 our own staff; and the public can suggest improvements to the draft plan.

When the final plan is issued, it contains not only our strategic goals and objectives but also our strategies for achieving them—strategies that take the form of performance goals that support each strategic objective. (To view our current strategic plan, go to [www.gao.gov/sp/html/splan02.html](http://www.gao.gov/sp/html/splan02.html).) These performance goals are further defined by sets of key efforts, which currently number more than 400 for the agency as a whole. (To view our current key efforts, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).) For instance, seven performance goals support our stra-

tegic objective on health care needs of an aging and diverse population. One of these—to evaluate Medicare reform, financing, and operations—has six key efforts, among them analyzing the potential consequences of Medicare structural reforms and assessing the effects of expanding managed care in Medicare.

At the conclusion of each 2-year cycle, we assess whether we have met these performance goals. If we have met most of our performance goals, we have made progress in achieving our strategic objectives and the broader strategic goals. To assess the performance goals, we examine the work completed under the performance goal's key efforts. For a performance goal to be met, the responsible senior executive considers the amount of work conducted and/or recommendations made for each key effort as well as any other assistance provided to the client or customer that is related to these efforts. These senior executives then judge whether the work completed collectively for all key efforts actually achieved the performance goal.

Results of the 2-year cycle that ended with the close of fiscal 2003 on September 30 are detailed in this report. At the start of fiscal 2004, we will initiate a new 2-year cycle. To determine the performance goals for the next cycle, we will draw from our strategic planning effort that is underway. We generally carry forward any unmet performance goals unless they are no longer relevant to the Congress's and the nation's needs. We also carry forward performance goals that reflect a continued focus of our work and we include new performance goals based on anticipated future needs of the Congress and our internal customers. We will evaluate our progress on the new performance goals at the conclusion of fiscal 2005.

## *Our Annual Performance Measures*

We measure the progress of the agency as a whole by using seven annual measures (see [table II.1](#)) to assess our staff's efforts to provide the kind of information and recommendations that will lead to benefits to the American people. We also use all of these measures except for two—new products with recommendations and timeliness—to track

**Table II.1: GAO's Annual Performance Measures**

Measure	Indicates...
Financial benefits	Has our work provided financial benefits for the American people in the form of reduced or avoided costs, higher revenues, or better application of resources?
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 written 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?

Source: GAO.

progress on each of our external strategic goals (goals 1, 2, and 3). Together, this array of annual indicators helps our 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 first three measures shown in [table II.1](#) provide data on results that were achieved over a period of time, and the remaining measures provide data on work completed in fiscal 2003.

The financial and other benefits for the nation that we report may take several forms. They may reflect, for instance, federal dollars freed up for other purposes because the Congress or federal agencies used our findings or recommendations to make government operations more efficient, less wasteful, or less subject to potential abuse. Or they may reflect instances in which our 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 our 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 our 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 the percentage of recommendations that were made 4 years ago and have 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 our staff to discuss implementation with

the federal agencies involved, alerts our staff to 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 recommendations that can be implemented is an important part of our 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. We, therefore, count the number of recommendations made each year and, at the agencywide level, calculate the percentage of products that contain recommendations.

One essential way we fulfill our 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 our executives present testimony. This measure serves as an indicator of how responsive we are to testimony requests, which require fast preparation of brief but information-rich presentations. Of course, the Congress itself determines the number of hearings it will conduct in a year and thus controls the number of possible opportunities we have to earn places at the witness tables.

Our final annual measure—timeliness—is, like the testimonies measure, an indicator of the quality of service we provide to our congressional clients. However good our 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 specific product is actually delivered with the date our managers agreed with their congressional clients to deliver the product.

In the following sections, we discuss what our fiscal 2003 results for these measures say about our performance.

# Goal 1

Goal 1's Cost: \$186.4 Million

39% of GAO's Total



Goal 1

Goal 2

Goal 3

Goal 4

Well-being and financial security of American people

## Results

### **\$23.6 billion in financial benefits**

- Recommended that expenditure weights for the Consumer Price Index be updated biannually, \$9.2 billion
- Identified a Medicaid loophole that was subsequently closed, \$5.9 billion
- Improved the Department of Housing and Urban Development's (HUD) management of unexpended balances, \$3.4 billion
- Determined that increased Medicare payments to skilled nursing facilities had little effect on nurse/patient ratios, \$1 billion
- Recovered overpayments in the Supplemental Security Income (SSI) program, \$990 million
- Contained federal disability insurance costs, \$600 million
- Additional financial benefits, \$2.5 billion

### **217 other benefits**

- Helped ensure the effectiveness of the smallpox vaccination program
- Recommended steps that financial regulators could take to fully recover from the September 11 attacks
- Advised transportation officials in many transportation modes on developing safety and security plans and strategies
- 214 additional benefits

### **557 new recommendations made**

- Ensure effective implementation of the No Child Left Behind Act
- Improve financial accountability at the Small Business Administration
- Increase training for food inspection personnel
- 554 additional improvements recommended

### **80 testimonies**

- Child welfare
- Severe Acute Respiratory Syndrome (SARS)
- Transportation security
- FBI reorganization
- Nuclear waste cleanup
- 75 additional hearings on topics of national importance

## 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*

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

- the health care 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.

To accomplish our work under these strategic objectives, we conducted audits, analyses, and evaluations at every major federal agency and developed reports and testimonies on the efficacy and soundness of those programs in response to congressional requests and mandates. For example, work under this goal

- helped focus attention on improving the quality of care in the nation's nursing homes, which provide care for about 1.7 million elderly and disabled residents in about 17,000 facilities (see app. 1, item 1.1);



Source: See Image Sources.

- led to better implementation of the No Child Left Behind Act of 2001, by which the Congress sought to increase accountability for states and school districts to improve the academic achievement of millions of students (see app. 1, items 1.9 and 1.10);
- raised awareness of the risks associated with the single-employer pension insurance program that is operated by the Pension Benefit Guaranty Corporation (PBGC)—a step designed to spur congressional and agency actions to strengthen a program that insures the pension benefits of over 34 millions Americans in more than 30,000 private-defined benefit plans (see app. 1, item 1.19);
- reported on our observations of the transformation of the FBI, which in the wake of September 11 has been reorganizing to focus more effectively on counterterrorism and counterintelligence (see app. 1, item 1.27);
- identified critical security challenges in all realms of transportation—air, surface, and maritime—and offered recommendations to help mitigate the risks and enhance the government's effectiveness in ensuring transportation safety (see app. 1, items 1.43, 1.44, and 1.47); and
- highlighted federal entities whose missions and ways of doing business require modernized approaches—among them the Postal Service, the General Services Administration, and the Coast

**Table II.2: Annual Measures and Targets for Strategic Goal 1**

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003		Met?	2004 Target <sup>a</sup>
					Target	Actual		
Financial benefits (dollars in billions)	\$13.8	\$14.1	\$8.9	\$24.1 <sup>b</sup>	\$21.2	\$23.6	Yes	\$23.3
Other benefits	140	182	210	226	208	217	Yes	215
Past recommendations implemented	72%	72%	71%	72%	77%	71%	No	79%
New recommendations made	350	435	396	524	363	557	Yes	328
Testimonies	123	131	73	111	85	80	No	77

Source: GAO.

<sup>a</sup>On the basis of past performance and expected future work, we revised these targets after we issued our fiscal 2004 performance plan. The original targets were financial benefits, \$21.3 billion; other benefits, 216; past recommendations implemented, 77 percent; recommendations made, 363; and testimonies, 90.

<sup>b</sup>Between fiscal 2001 and fiscal 2002, we changed our methodology for tabulating financial benefits. This change accounted for part of the increase in the fiscal 2002 results. See [table II.12](#) for details.

Guard—and helping the Congress encourage and oversee these entities' transformation efforts (see app. 1, item 1.48).

As shown in [table II.2](#), we exceeded our fiscal 2003 targets for three of the five performance targets for this strategic goal and did not meet two of the targets. Later parts of this section analyze each of our quantitative performance measures, discuss the reason for the unmet targets, and describe the targets for fiscal 2004. This analysis is followed by a discussion of our 2-year qualitative performance measures, all but one of which were met for fiscal 2003.

To help us examine trends over time, we look at 4-year averages for all but one of these measures.<sup>8</sup> These 4-year averages, which are shown in [table II.3](#), minimize the effect of an atypical result in any given year. This table indicates that the number

of testimonies for goal 1 has declined since fiscal 2000 while performance on other indicators has generally risen over time.

### *Financial Benefits*

The financial benefits reported for this goal in fiscal 2003 totaled \$23.6 billion, exceeding the target of \$21.2 billion by 11 percent. Six of our 10 accomplishments valued at over \$500 million were achieved by this goal. Those 6 big-dollar accomplishments, reported in detail in the goal 1 section of appendix 1, accounted for 89 percent of the goal's total. The largest of them, valued at \$9.2 billion, arose from our recommendation that updates to the Consumer Price Index be made more frequently than once every 10 years. Subsequent actions by the Bureau of Labor Statistics ultimately

**Table II.3: Four-Year Averages for Strategic Goal 1**

Performance measure	1999	2000	2001	2002	2003
Financial benefits (dollars in billions)	\$9.8	\$11.8	\$11.9	\$15.2	\$17.7
Other benefits	129	154	177	190	209
New recommendations made	278	336	367	426	478
Testimonies	110	121	114	110	99

Source: GAO.

<sup>8</sup>We do not look at averages for the percent of past recommendations implemented because the number of recommendations made in each year is not constant.

resulted in lower estimates of federal expenditures for some programs and higher estimates of federal revenues from other programs. The other financial benefits for this goal stemmed from efforts such as our work on the Medicaid and Medicare programs, HUD's budget request for fiscal 2001 and SSI's debt collection efforts.

Because financial benefits often result from work completed in prior years, we set our fiscal 2004 target based on our assessment of the progress agencies are making in implementing our past recommendations. We anticipate that the financial benefits attributable to goal 1 will continue at the same level in the near future. We, therefore, have set a target of \$23.3 billion for fiscal 2004, a figure that is still high and will be challenging 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 2003 included 199 actions taken by federal agencies to improve their services and operations in response to our work and another 18 in which information we provided to the Congress resulted in statutory or regulatory changes. This total of 217 other benefits exceeded our target of 208 for the year.

Among the key accomplishments in this category were enhancing air transportation safety, improving federal agencies' management of real property that is worth hundreds of billions of dollars, helping the Postal Service prevent cash and checks from getting lost, encouraging better radio frequency spectrum management planning related to wireless technologies, improving protections for veterans participating in research, assisting the Congress in Medicaid formula enhancements, improving access to voting and polling places, and increasing training for workers involved in food inspection. These and other accomplishments are reported in detail in the goal 1 section of appendix 1.

For fiscal 2004, we set our target at 215 other benefits, which is slightly above our fiscal 2003 target and about the same as our fiscal 2003 actual performance.

## *Additional Measures*

In addition to the benefits that accrued in fiscal 2003 from past work done under this goal, we recorded the following results:

- **Past recommendations implemented**—We documented that the percent of recommendations implemented for fiscal 2003 was 71 percent, results that fell short of the 77 percent target for fiscal 2003. The shortfall was due mainly to recommendations made in the homeland security and health care areas. Many of the recommendations related to homeland security were made to several of the 22 legacy agencies that were transferred to the Department of Homeland Security (DHS) during its creation in fiscal 2003. The newly formed department has had difficulty determining and validating whether many recommendations have been implemented. Also, recommendations were often made to multiple agencies whose functions have now been placed together to form new directorates and bureaus. For example, in 1999, we made several recommendations to both the Immigration and Naturalization Service in the Department of Justice and the Customs Service in the Department of Treasury. These functions now fall under the newly formed Bureau of Customs and Border Protection within DHS. We will continue to work with the new department on ascertaining the status of our recommendations. Furthermore, many of the recommendations in our health care area were directed at the Centers for Medicare & Medicaid Services. Changes in leadership within the centers and the broader debate on major program reforms delayed the agency's implementation of our recommendations. We have asked the teams whose work contributes to the goal 1 results to continue their monitoring efforts to help meet the target for fiscal 2004 in order to attain a 79-percent rate of implementation—a target that is constant across all of our goals.
- **New recommendations made**—During fiscal 2003, we issued 557 new recommendations under goal 1 for additional improvements to government accountability, operations, and services, exceeding the target of 363 by 53 percent. We exceeded our target partly because of our increased emphasis on including in our

products constructive recommendations related to our work. In some areas, such as physical infrastructure, our work identified the need for more recommendations than we have made in the past. Among the recommendations made were those to the Securities and Exchange Commission to better prepare the U.S. financial markets for any future terrorist attacks, those to the Department of Education to effectively ensure the implementation of the No Child Left Behind Act, and those to both the Department of the Interior and the Department of Agriculture's Forest Service to provide better information in rehabilitation treatments and emergency stabilization of wildland fires. While we have some evidence that our performance in this area may continue to be high for fiscal 2004, we set a lower target of 328 new recommendations partly because we find that agencies with which we have constructive relationships are making changes while our work is ongoing, preempting the need for us to include a recommendation in our product. In addition, we anticipate that most of our recommendations during fiscal 2004 will relate to work performed under other goals. We will continue to examine our performance in this area to determine how to set future targets.

- **Testimonies**—Our witnesses testified at 80 congressional hearings related to this strategic goal, missing the fiscal 2003 target of 85 testimonies by 6 percent. As mentioned last year, we did not believe the pace of hearings would be the same in fiscal 2003 and had estimated the target of 85 testimonies. Although we missed the target, which was set at an approximate level, we believe it was a realistic estimate for fiscal 2003

that was missed primarily due to external factors, such as the Congress's need to focus on budget deliberations, which ran into the second quarter of fiscal 2003 and delayed focusing on other issues that would have called for hearings. Also, we believe that missing this target had no effect on our overall performance. For example, among the testimonies given were those on transportation security, the organization of the FBI, and the SARS. On the basis of our assessment of the potential need to testify on issues under this goal, we have set a target of presenting testimony at 77 hearings during fiscal 2004.

### *Two-year Performance Goals*

As shown in [table II.4](#), at the close of fiscal 2003, we had met 36 of the 37 performance goals for this strategic goal. We did not meet the performance goal of assessing federal economic development assistance and its impact on communities because we did not receive requests to perform work in this area and could not undertake self-initiated work due to resources being needed for work requested by the Congress in other areas. We have ongoing work on federal empowerment zones and renewal communities that will help us address this goal by the end of fiscal 2005. In our fiscal 2004 performance plan, we indicated that we plan to use the same performance goals for fiscal 2004 until the completion of the update of our strategic plan in fiscal 2004. We anticipate revising and publishing the 2-year performance goals for fiscal 2004 and fiscal 2005 as part of our fiscal 2005 performance budget.



**Table II.4: Strategic Goal 1's Two-Year Performance Goals, Fiscal 2002 and Fiscal 2003**

<input checked="" type="checkbox"/> Met	
<input type="checkbox"/> Not Met	Strategic objective/performance goal
<b>The health care needs of an aging and diverse population</b>	
<input checked="" type="checkbox"/>	Evaluate Medicare reform, financing, and operations
<input checked="" type="checkbox"/>	Assess trends and issues in private health insurance coverage
<input checked="" type="checkbox"/>	Assess actions and options for improving the Department of Veterans Affairs' and the Department of Defense's health care services
<input checked="" type="checkbox"/>	Evaluate the effectiveness of federal programs to promote and protect the public health
<input checked="" type="checkbox"/>	Evaluate the effectiveness of federal programs to improve the nation's preparedness for the public health and medical consequences of bioterrorism
<input checked="" type="checkbox"/>	Evaluate federal and state program strategies for financing and overseeing chronic and long-term health care
<input checked="" type="checkbox"/>	Assess states' experiences in providing health insurance coverage for low-income populations
<b>The education and protection of the nation's children</b>	
<input checked="" type="checkbox"/>	Analyze the effectiveness and efficiency of early childhood education and care programs in serving their target populations
<input checked="" type="checkbox"/>	Assess options for federal programs to effectively address the educational and nutritional needs of elementary and secondary students and their schools
<input checked="" type="checkbox"/>	Determine the effectiveness and efficiency of child support enforcement and child welfare programs in serving their target populations
<input checked="" type="checkbox"/>	Identify opportunities to better manage postsecondary, vocational, and adult education programs and deliver more effective services
<b>The promotion of work opportunities and the protection of workers</b>	
<input checked="" type="checkbox"/>	Assess the effectiveness of federal efforts to help adults enter the workforce and to assist low-income workers
<input checked="" type="checkbox"/>	Analyze the impact of programs designed to maintain a skilled workforce and ensure employers have the workers they need
<input checked="" type="checkbox"/>	Assess the success of various enforcement strategies to protect workers while minimizing employers' burden in the changing environment of work
<input checked="" type="checkbox"/>	Identify ways to improve federal support for people with disabilities
<b>A secure retirement for older Americans</b>	
<input checked="" type="checkbox"/>	Assess the implications of various Social Security reform proposals
<input checked="" type="checkbox"/>	Identify opportunities to foster greater pension coverage, increase personal saving, and ensure adequate and secure retirement income
<input checked="" type="checkbox"/>	Identify opportunities to improve the ability of federal agencies to administer and protect workers' retirement benefits
<b>An effective system of justice</b>	
<input checked="" type="checkbox"/>	Identify ways to improve federal agencies' ability to prevent and respond to terrorist acts and other major crimes
<input checked="" type="checkbox"/>	Assess the effectiveness of federal programs to control illegal drug use
<input checked="" type="checkbox"/>	Identify ways to administer the nation's immigration laws to better secure the nation's borders and promote appropriate treatment of legal residents
<input checked="" type="checkbox"/>	Assess the administrative efficiency and effectiveness of the federal court and prison systems

**PART II**

- Met
- Not Met    **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
- 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

Source: GAO.

Note: For a performance goal to be met, the responsible senior executive considers the amount of work conducted and/or recommendations made for each key effort as well as any other assistance provided to the client or customer that is related to these efforts. These senior executives then judge whether the work completed collectively for all key efforts actually achieved the performance goal. To view the 160 key efforts for the 37 performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).



# Goal 2

Goal 2's Cost: \$122.0 Million 26% of GAO's Total



Changing security  
threats and challenges  
of globalization

## Results

### **\$7.1 billion in financial benefits**

- Identified duplicative efforts that resulted in terminating the Army Crusader program, \$3.9 billion
- Improved targeting of the Department of Defense's (DOD) emergency funds, \$517 million
- Additional financial benefits, \$2.68 billion

### **273 other benefits**

- Helped to address challenges in constructing and implementing the Department of Homeland Security
- Improved military recruitment
- Increased knowledge of AIDS in Africa and other parts of the world
- Strengthened U.S. efforts to help other countries combat nuclear smuggling
- Improved security of nuclear weapons and radioactive sealed sources
- 268 additional benefits

### **846 new recommendations**

- Improve contract management in the space program
- Better align military forces to ensure that missions are effectively carried out while maintaining military readiness of participating forces
- Strengthen the U.S. visa process as an antiterrorism tool
- Improve collaboration among states to increase security of sealed radioactive sources
- 842 additional improvements recommended

### **48 testimonies**

- Condition of overseas diplomatic facilities
- Chemical and biological defense
- Combating terrorism
- Security and safety of Americans at home and abroad
- 44 additional hearings on matters 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 international 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 an objective look at the wide range of highly complex issues involved, our second strategic goal focuses on helping the Congress and the federal government respond to changing security threats and the challenges of global interdependence. Our four strategic objectives under this goal are to support congressional and federal efforts to

- 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 accomplish our work under these strategic objectives during fiscal 2003, we conducted field work across five continents—Europe, Africa, Asia, South America, and North America—to collect the most relevant, direct evidence in response to con-



Source: See Image Sources.

gressional requests. We then analyzed and distilled the information we collected into hundreds of reports, testimonies, and other types of information services. For example, under this goal we

- built on previous efforts to identify the federal government's vulnerability to cyber attacks and intrusions (see app. 1, item 2.2);
- provided snapshots of program performance and risk for DOD's major weapons systems to help the Congress gauge progress on individual programs (see app. 1, item 2.16);
- focused attention on security measures at the nation's nuclear weapons laboratories that led the Secretary of Energy to order a broad security overhaul at these facilities (see app. 1, item 2.18);
- reported on the costs and difficulties that had been encountered in rebuilding efforts in other countries and underscored the critical importance of effective congressional oversight of U.S. efforts to provide security in Iraq, reconstruct basic infrastructure, create accountable government institutions, foster conditions for democracy, and build a free-market economy (see app. 1, item 2.28);
- created an electronic, searchable database of China's trade commitments for use as a tool to identify trade opportunities and monitor China's implementation of its agreements (see app. 1, item 2.40);

**PART II**

- identified issues related to the consolidation of public accounting firms that warrant ongoing attention (see app. 1, item 2.41); and
- provided a comprehensive overview of efforts to control illegal Internet gambling transactions (see app. 1, item 2.42).

As shown in [table II.5](#), we met or exceeded our fiscal 2003 target for all five of the strategic goal's performance targets. Later parts of this section analyze each of our performance measures and describe the targets for fiscal 2004. This analysis is followed by a discussion of our 2-year qualitative performance measures, all of which were met for fiscal 2003.

To help us examine trends over time, we look at 4-year averages for all but one of our measures.<sup>9</sup> These 4-year averages, which are shown in [table II.6](#), minimize the effect of an atypical result in any given year. [Table II.6](#) indicates that financial

benefits and number of testimonies for goal 2 have remained fairly stable while documentation of other benefits derived from our work and new recommendations made related to this goal have risen.

### *Financial Benefits*

The financial benefits reported for this goal in fiscal 2003 totaled \$7.1 billion, exceeding the target of \$6.8 billion by roughly 4 percent. Most of the financial benefits (62 percent of the total) were attributable to two accomplishments valued at \$500 million or more each. These accomplishments, which are described in detail in the goal 2 section of appendix 1, stemmed from engagements that helped DOD free billions of dollars for defense priorities by eliminating waste or inefficiency. The largest of them, valued at \$3.9 billion, arose from terminating the Army's Crusader artillery system, a step defense

**Table II.5: Annual Measures and Targets for Strategic Goal 2**

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003		Met?	2004 Target <sup>a</sup>
					Target	Actual		
Financial benefits (dollars in billions)	\$3.0	\$5.5	\$10.5	\$8.4 <sup>b</sup>	\$6.8	\$7.1	Yes	\$7.0
Other benefits	80	129	188	218	200	273	Yes	244
Past recommendations implemented	65%	84%	81%	83%	77%	79%	Yes	79%
New recommendations made	255	376	618	618	521	846	Yes	602
Testimonies	37	56	34	38	36	48	Yes	56

Source: GAO.

<sup>a</sup>On the basis of past performance and expected future work, we revised these targets after we issued our fiscal 2004 performance plan. The original targets were financial benefits, \$5.6 billion; other benefits, 200; past recommendations implemented, 77 percent; recommendations made, 521; and testimonies, 43.

<sup>b</sup>Between fiscal 2001 and fiscal 2002, we changed our methodology for tabulating financial benefits. See [table II.12](#) for details.

**Table II.6: Four-Year Averages for Strategic Goal 2**

Performance measure	1999	2000	2001	2002	2003
Financial benefits (dollars in billions)	\$6.3	\$6.0	\$6.2	\$6.9	\$7.9
Other benefits	65	90	118	154	202
New recommendations made	266	279	373	467	615
Testimonies	40	46	43	41	44

Source: GAO.

<sup>9</sup>We do not look at averages for the percent of past recommendations implemented because the number of recommendations made in each year is not constant.

officials took in response to our recommendation—one that did not affect readiness but freed funds to meet other needs.

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. However, because financial benefits often result from work completed in prior years, we set our fiscal 2004 target at \$7 billion—about the same as fiscal 2003—based on our assessment of the progress agencies are making in implementing our past recommendations that might yield financial benefits.

### *Other Benefits*

The other tangible benefits reported for goal 2 in fiscal 2003 included 257 actions taken by federal agencies to improve their services and operations in response to our work and another 16 in which information we provided to the Congress resulted in statutory or regulatory changes. This total of 273 other benefits exceeded our target of 200 for the year by over 36 percent. Our success in this area arose from our increased emphasis on follow-up efforts and increased monitoring of our progress toward the targets throughout the year. It is also the result of making recommendations that the agencies agree with and implement. Among the most important accomplishments under this goal were improving security measures at the nation's nuclear weapons laboratories and helping combat AIDS around the world. 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 our recommendations made under this goal led us to raise our target to 244. While this target is lower than our fiscal 2003 actual performance, it is well above the 4-year average for this measure.

## *Additional Measures*

In addition to the benefits that accrued for the American people in fiscal 2003 from past work done under this goal, we recorded the following results:

- **Past recommendations implemented**—We documented that the percent of recommendations implemented for fiscal 2003 was 79 percent, results that slightly exceeded the target of 77 percent. Because we expect that the implementation rate will be about the same across all goals, we are setting the target for fiscal 2004 at a 79-percent implementation rate.
- **New recommendations made**—We issued 846 new recommendations for additional improvements to government accountability, operations, and services during fiscal 2003, exceeding the target of 521 by about 62 percent. We made more recommendations than expected for a number of reasons, including our recommendations related to IT issues more specific and making recommendations related to DOD efforts that were not known when we set our targets for this measure. Among the recommendations made were those to the Secretary of Energy and the Administrator of the National Nuclear Security Administration to focus more on certain key management and oversight issues, those to DOD to assess domestic military mission requirements and determine what steps should be taken to structure U.S. forces to better accomplish domestic military missions while maintaining proficiency for overseas combat. We are raising the target for fiscal 2004 to 602 new recommendations, which is lower than we achieved this year, but is in line with our 4-year averages.
- **Testimonies**—Our witnesses testified at 48 congressional hearings related to this strategic goal, exceeding by 33 percent our target of presenting testimony at 36 hearings. This happened, in part, because of the increase in testimonies related to DOD's proposal to lease rather than purchase tanker aircraft—a proposal that was not known until after we set our target—and increased interest in size and condition of U.S. embassies and protecting our borders. Among other things, we testified on the conditions of overseas diplomatic facilities,

chemical and biological defense systems, and sourcing and acquisition topics. Due to continued interest in the efforts related to homeland security and the impact of the war in Iraq, we have increased our target for presenting testimony at hearings to 56 for fiscal 2004.

### *Two-year Performance Goals*

As shown in [table II.7](#), at the close of fiscal 2003, we met all 21 performance goals for this strategic goal. In our fiscal 2004 performance plan, we indicated that we plan to use the same performance goals for fiscal 2004 until the completion of the update of our strategic plan in fiscal 2004. We anticipate revising and publishing the 2-year performance goals for fiscal 2004 and fiscal 2005 as part of our fiscal 2005 performance budget.



**Table II.7: Strategic Goal 2's Two-Year Performance Goals, Fiscal 2002 and Fiscal 2003**

<input checked="" type="checkbox"/> Met	<input type="checkbox"/> Not Met	Strategic objective/performance goal
<b>Responding to diffuse threats to national and global security</b>		
<input checked="" type="checkbox"/>		Analyze the effectiveness of the federal government's approach to providing for homeland security
<input checked="" type="checkbox"/>		Assess U.S. efforts to protect computer and telecommunications systems supporting critical infrastructures in business and government
<input checked="" type="checkbox"/>		Assess the effectiveness of U.S. programs and international agreements to prevent the proliferation of nuclear, biological, chemical, and conventional weapons and sensitive technologies
<b>Ensuring military capabilities and readiness</b>		
<input checked="" type="checkbox"/>		Assess the ability of DOD to maintain adequate readiness levels while addressing the force structure changes needed in the 21 <sup>st</sup> century
<input checked="" type="checkbox"/>		Assess overall human capital management practices to ensure a high-quality total force
<input checked="" type="checkbox"/>		Identify ways to improve the economy, efficiency, and effectiveness of DOD's support infrastructure and business systems and processes
<input checked="" type="checkbox"/>		Assess the National Nuclear Security Administration's efforts to maintain a safe and reliable nuclear weapons stockpile
<input checked="" type="checkbox"/>		Analyze and support DOD's efforts to improve budget analyses and performance management
<input checked="" type="checkbox"/>		Assess whether DOD and the services have developed integrated procedures and systems to operate effectively together on the battlefield
<input checked="" type="checkbox"/>		Assess the ability of weapon system acquisition programs and processes to achieve desired outcomes
<b>Advancing and protecting U.S. international interests</b>		
<input checked="" type="checkbox"/>		Analyze the plans, strategies, costs, and results of the U.S. role in conflict interventions
<input checked="" type="checkbox"/>		Analyze the effectiveness and management of foreign aid programs and the tools used to carry them out
<input checked="" type="checkbox"/>		Analyze the costs and implications of changing U.S. strategic interests
<input checked="" type="checkbox"/>		Evaluate the efficiency and accountability of multilateral organizations and the extent to which they are serving U.S. interests
<input checked="" type="checkbox"/>		Assess the strategies and management practices for U.S. foreign affairs functions and activities
<b>Responding to the impact of global market forces on U.S. economic and security interests</b>		
<input checked="" type="checkbox"/>		Analyze how trade agreements and programs serve U.S. interests
<input checked="" type="checkbox"/>		Improve understanding of the effects of defense industry globalization
<input checked="" type="checkbox"/>		Assess how the United States can influence improvements in the world financial system
<input checked="" type="checkbox"/>		Assess the ability of the financial services industry and its regulators to maintain a stable and efficient global financial system
<input checked="" type="checkbox"/>		Evaluate how prepared financial regulators are to respond to change and innovation
<input checked="" type="checkbox"/>		Assess the effectiveness of regulatory programs and policies in ensuring access to financial services and deterring fraud and abuse in financial markets

Source: GAO.

Note: For a performance goal to be met, the responsible senior executive considers the amount of work conducted and/or recommendations made for each key effort as well as any other assistance provided to the client or customer that is related to these efforts. These senior executives then judge whether the work completed collectively for all key efforts actually achieved the performance goal. To view the 95 key efforts for the 21 performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

# Goal 3

Goal 3's Cost: \$144.9 Million

31% of GAO's Total



Goal 1

Goal 2

Goal 3

Goal 4

Transforming the  
federal government's role

## Results

### **\$4.7 billion in financial benefits**

- Identified best practices in acquiring defense services, \$1.7 billion
- Modified funding of the Navy Marine Corps Intranet to allow implementation of management controls, \$779.9 million
- Additional financial benefits, \$2.2 billion

### **553 other benefits**

- Helped agencies improve audits of purchase card programs
- Assessed the risks of major weapons system acquisitions
- Strengthened government auditing standards
- Improved border security information sharing and U.S. border protection
- Reduced national security risks related to sales of excess DOD property
- 548 additional benefits

### **772 new recommendations made**

- Contribute to congressional oversight of the administration of the income tax system
- Improve agency operations through human capital reforms at DOD, DHS, and across government
- 770 additional improvements recommended

### **56 testimonies**

- Human capital
- Performance budgeting
- Government purchase cards
- Financial management weaknesses
- 52 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*

Our third strategic goal focuses on the collaborative and integrated elements needed for the federal government to achieve results. 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 and needs. Moreover, addressing today's priorities must be balanced against the long-term fiscal pressures of financing existing programs and operations. In summary, the work under this goal highlights the intergovernmental relationships that are necessary to achieve national goals.

To ensure that we help transform the role of the government and how it does business to meet 21<sup>st</sup> century challenges, we have established the following four strategic objectives:

- 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 accomplish our work under these four objectives, we conducted audits, evaluations, and analyses in response to congressional requests and through work initiated under the Comptroller General's authority. For example, work under this goal included



Source: See Image Sources.

- focusing congressional and executive branch management attention on the most significant challenges by issuing our performance and accountability series reports on the government as a whole as well as the largest departments and agencies (see app. 1, item 3.27);
- updating the *Government Auditing Standards* (the “Yellow Book”), the guide for audits of financial and program management not only in federal agencies, but also state and local governments and more than 30,000 nonprofit organizations that receive federal funds (see app. 1, item 3.38);
- issuing an exposure draft of an audit guide to help auditors and fraud investigators review government purchase card programs (see app. 1, item 3.24); and
- developing and refining innovative information technology (IT) guidance and tools for federal agencies, including the IT Investment Management Framework, which lays out a five-stage model for agencies to follow as they design and implement IT investments (see app. 1, item 3.12).

As shown in [table II.8](#), we exceeded all of the performance targets for this strategic goal. Later parts of this section analyze those results and describe our targets for fiscal 2004. This analysis is followed by a

**Table II.8: Annual Measures and Targets for Strategic Goal 3**

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003		Met?	2004 Target <sup>a</sup>
					Target	Actual		
Financial benefits (dollars in billions)	\$4.5	\$5.1	\$7.0	\$5.2 <sup>b</sup>	\$4.6	\$4.7	Yes	\$4.7
Other benefits	414	503	401	462	392	553	Yes	441
Past recommendations implemented	78%	77%	85%	82%	77%	91%	Yes	79%
New recommendations made	335	413	549	808	366	772	Yes	570
Testimonies	100	105	42	65	52	56	Yes	57

Source: GAO.

<sup>a</sup>On the basis of past performance and expected future work, we revised these targets after we issued our fiscal 2004 performance plan. The original targets were financial benefits, \$8.1 billion; other benefits, 404; past recommendations implemented, 77 percent; recommendations made, 366; and testimonies, 60.

<sup>b</sup>Between fiscal 2001 and fiscal 2002, we changed our methodology for tabulating financial benefits. This change accounted for part of the increase in the fiscal 2002 results. See [table II.12](#) for details.

discussion of our 2-year qualitative performance measures, all but one of which were met for fiscal 2003.

To help us examine trends over time, we look at 4-year averages for all but one of our measures.<sup>10</sup> These 4-year averages, which are shown in [table II.9](#), minimize the effect of an atypical result in any given year. [Table II.8](#) indicates that financial benefits and number of testimonies for goal 3 have remained fairly stable while documentation of other benefits derived from our work and new recommendations made related to this goal have risen.

### *Financial Benefits*

The financial benefits reported for this goal in fiscal 2003 totaled \$4.7 billion, meeting our target of \$4.6 billion. Under goal 3, we typically work on core government business processes and government-wide management reforms. While this work makes important contributions to other benefits, it less often yields measurable financial benefits. Nonetheless, during fiscal 2003, two accomplishments under this goal were valued at \$500 million or more each, accounting for just over half of the goal's financial benefits. One resulted in about \$1.7 billion in estimated financial benefits related to acquisition management reforms and the other resulted in about \$780 million in financial benefits related to reduced contract amounts for the Navy-Marine Corps intranet. These and other accomplishments are reported in detail in the goal 3 section of appendix 1.

**Table II.9: Four-Year Averages for Strategic Goal 3**

Performance measure	1999	2000	2001	2002	2003
Financial benefits (dollars in billions)	\$5.7	\$5.7	\$5.3	\$5.5	\$5.5
Other benefits	274	361	407	445	480
New recommendations made	355	383	439	526	636
Testimonies	79	90	86	78	67

Source: GAO.

<sup>10</sup>We do not look at averages for the percent of past recommendations implemented because the number of recommendations made in each year is not constant.

Our assessments of the executive branch's current efforts to implement the recommendations we made in our work under this goal indicate that financial benefits related to this goal are likely to remain the same for fiscal 2004. Consequently, we kept the target for financial benefits at \$4.7 billion for fiscal 2004.

## *Other Benefits*

The other tangible benefits reported for goal 3 in fiscal 2003 included 525 instances in which agencies' core business processes were improved or governmentwide management reforms were advanced as a result of our work. In addition, there were 28 instances in which information we provided to the Congress resulted in statutory or regulatory changes. This total of 553 other benefits exceeded our target of 392 for the year by 41 percent. The larger number of other benefits occurred mainly in our financial management and information technology areas where we tend to make multiple, specific recommendations for change to more than one entity. Among the key accomplishments were increasing the information available to the Congress to assist its oversight of federal information security efforts and improving financial management at DHS. 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 our recommendations made under this goal led us to set a fiscal 2004 target of 441 other benefits for goal 3. While this target is lower than our fiscal 2003 actual performance, it is higher than our fiscal 2003 target and consistent with our 4-year average for this measure.

This goal is lower than our actual results in recent years because many of our recommendations were interrelated and we will document their implementation as a smaller number of broad-based benefits.

## *Additional Measures*

In addition to the benefits that accrued in fiscal 2003 from past work done under this goal, we recorded the following results:

- **Past recommendations implemented**—We documented that the percent of recommendations implemented for fiscal 2003 was 91 percent, results that exceeded the target of 77. The target for fiscal 2004 is the same for all goals—a 79-percent implementation rate.
- **New recommendations made**—We issued 772 new recommendations for additional improvements to government operations and services during fiscal 2003, exceeding the target of 366 by nearly 111 percent. Our success in this area was partly due to our making recommendations on multiple financial and information management topics that were more specific than in the past. Among the recommendations were those to the Commissioner of Internal Revenue to enforce the Internal Revenue Service's (IRS) policy of a 180-day expiration period for fingerprint check results when an individual enters on duty, those to the Secretary of DHS and Director of Office Personnel Management to ensure that the human capital management system is designed to accomplish the mission, objectives, and goals of the department and to ensure that the communication strategy used to support the human capital system maximizes opportunities for employee involvement. We raised the target for fiscal 2004 to 570 new recommendations. This is 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 2003, our witnesses testified at 56 congressional hearings related to this strategic goal, slightly exceeding the target of 52. Among the testimonies presented were human capital improvements at DOD, and performance budgeting, and financial management among federal agencies. For fiscal 2004, we have set an approximate target of presenting testimony at 57 hearings because we expect the level of hearings to stay about the same as it was in fiscal 2003.

## *Two-year Performance Goals*

As shown in [table II.10](#), at the close of fiscal 2003, we had met 20 of the 21 performance goals for this strategic goal. We did not meet the performance goal of assessing the effectiveness of the Federal Statistical System in providing relevant, reliable, and timely information that meets federal program needs because of the need to devote resources to

other important work. However, we made progress on this performance goal with our report on retirement income gaps and a series of reports on Census 2000. We plan to continue working in this area during fiscal 2004 and fiscal 2005. We anticipate revising and publishing the 2-year performance goals for fiscal 2004 and fiscal 2005 as part of our fiscal 2005 performance budget.

**Table II.10: Strategic Goal 3's Two-Year Performance Goals, Fiscal 2002 and Fiscal 2003**

<input type="checkbox"/> Not Met	Strategic objective/performance goal
<b>The implications of the increased role of public and private parties in achieving federal objectives</b>	
<input type="checkbox"/>	Analyze the modern service-delivery system environment and the complexity and interaction of service-delivery mechanisms
<input type="checkbox"/>	Assess how intergovernmental relationships and the participation of nongovernmental organizations affect the implementation of federal programs and the achievement of national goals
<input type="checkbox"/>	Assess the effectiveness of regulatory administration and reforms in achieving government objectives
<b>Assess the government's human capital and other capacity for serving the public</b>	
<input type="checkbox"/>	Identify and facilitate the implementation of human capital practices that will improve federal economy, efficiency, and effectiveness
<input type="checkbox"/>	Identify ways to improve the financial management infrastructure capacity to provide useful information to manage for results and costs day to day
<input type="checkbox"/>	Assess the government's capacity to manage information technology to improve performance
<input type="checkbox"/>	Assess efforts to manage the collection, use, and dissemination of government information in an era of rapidly changing technology
<input type="checkbox"/>	Assess the effectiveness of the Federal Statistical System in providing relevant, reliable, and timely information that meets federal program needs
<input type="checkbox"/>	Identify more business-like approaches that can be used by federal agencies in acquiring goods and services
<b>Support congressional oversight of the federal government's progress toward being more results-oriented, accountable, and relevant to society's needs</b>	
<input type="checkbox"/>	Analyze and support efforts to instill results-oriented management across the government
<input type="checkbox"/>	Highlight the federal programs and operations at highest risk and the major performance and management challenges confronting agencies
<input type="checkbox"/>	Identify ways to strengthen accountability for the federal government's assets and operations
<input type="checkbox"/>	Promote accountability in the federal acquisition process
<input type="checkbox"/>	Assess the management and results of the federal investment in science and technology and the effectiveness of efforts to protect intellectual property
<input type="checkbox"/>	Identify ways to improve the quality of evaluative information
<input type="checkbox"/>	Develop new resources and approaches that can be used in measuring performance and progress on the nation's 21 <sup>st</sup> century challenges
<b>The government's fiscal position and approaches for financing the government</b>	
<input type="checkbox"/>	Analyze the long-term fiscal position of the federal government
<input type="checkbox"/>	Analyze the structure and information for budgetary choices and explore alternatives for improvement
<input type="checkbox"/>	Contribute to congressional deliberations on tax policy
<input type="checkbox"/>	Support congressional oversight of IRS's modernization and reform efforts
<input type="checkbox"/>	Assess the reliability of financial information on the government's fiscal position and financing sources

Source: GAO.

Note: For a performance goal to be met, the responsible senior executive considers the amount of work conducted and/or recommendations made for each key effort as well as any other assistance provided to the client or customer that is related to these efforts. These senior executives then judge whether the work completed collectively for all key efforts actually achieved the performance goal. To view the 84 key efforts for the 21 performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

# Goal 4

Goal 4's Cost: \$20.0 Million

4% of GAO's Total



Maximize the value of GAO

## Results

### **Sharpened focus on clients' and customers' requirements**

- Developed agency and international protocols
- Developed external Web site for background material on key issues and concerns

### **Enhanced leadership and promote management excellence**

- Increased the security of our facilities and information systems
- Maintained integrity in financial management
- Continued to provide leadership in human capital strategy and management
- Increased search functions on external Web site

### **Leveraged institutional knowledge and experience**

- Improved management of agency records
- Continued knowledge-sharing among our organizational units
- Increased capacity through knowledge-sharing and collaboration

### **Continuously improved business and management processes**

- Improved guidance and tracking for our engagements
- Expanded use of "highlights" page to encapsulate information from our products on a single page
- Donated excess computer equipment to schools

### **Enhanced our position as an employer of choice**

- Developed new training curriculum for analysts
- Implemented training and learning programs to employees desktop computers through new software
- Launched new external employment opportunities Web site



## 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. For us, this means that our work is driven by our external clients and internal customers, our managers exhibit the characteristics of leadership and management excellence, our employees are devoted to ensuring quality in our work process and products through continuous improvement, and our agency is regarded by current and potential employees as an excellent place to work. Our five strategic 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 2003, we undertook a wide array of efforts in pursuing those objectives. For example, under this goal we

- expanded our Web-based client feedback survey to all committees of the House and the Senate (see app.1, item 4.1);
- effectively managed our IT resources to obtain the most value from every IT dollar—resulting in our Chief Information Officer (CIO) being placed on the “CIO 100” list by *CIO* magazine, which cited us for excellence in areas such as asset management, staffing and sourcing, and building partnerships (see app. 1, item 4.6);



Source: See Image Sources.

- enhanced and refined our recruitment strategy to attract the highest-quality workforce (see app.1, item 4.11);
- enhanced the competency-based performance management system for our staff (see app.1, item 4.21);
- hired a Chief Learning Officer to refocus and improve our training and development efforts (see app. 1, item 4.22), and
- continued to enhance our technology, tools, and systems to support a mobile flexible work environment (see app. 1, item 4.24).

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. As shown in [table II.11](#), at the close of fiscal 2003, we had met 16 of the 19 performance goals for this strategic goal.

We did not meet our performance goal of developing a framework to manage the collection, use, distribution, and retention of organizational knowledge because organizational resources had to be reallocated to performing higher-priority work. For example, we improved our report production and graphics processes and assessed our internal print plant operations. We also delayed development of short- and long-term communications standards in order to consider adopting new standards

for electronic products. In addition, completion of the integration of our document management system with electronic record keeping capabilities has been delayed until several pilot projects can be completed. We made substantial progress under this performance goal by conducting the first ever agencywide electronic files clean up effort as part of our efforts to improve our records management program. We also increased our knowledge sharing and collaboration efforts by implementing two new training courses on Web-based knowledge services, piloting communities of practice such as the Web Technology Advisory Group, and implementing portal technology such as the National Preparedness Web Portal. We anticipate continuing to provide resources to complete these efforts in fiscal 2004.

We did not meet our performance goal to improve our product and service lines due to a reallocation of resources to higher-priority work. In addition, identifying appropriate media for use in communicating our work results requires that we obtain client input. As we are already asking for client input in many other areas, this effort was delayed to avoid putting an additional burden on our clients. We made progress under this performance goal in the areas of assessing and improving our report production process, and establishing a systematic process to make improvements to our products, services, and processes based on client feedback.

We anticipate continuing to provide resources to this performance goal in fiscal 2004 so that we may complete these efforts.

Due to delays in the area of process improvements, we did not meet our performance goal to improve our job management processes. Specifically, staff resources intended for that key effort had to be diverted to the higher-priority revision of our policy manual to make it reflect changes in government auditing standards. We did, however, complete our work in evaluating the effectiveness of our risk management approach to designing engagements and developing quality products. Our post-issuance reviews, second partner quality reviews of draft reports, client feedback surveys, and other internal reviews demonstrated that our risk-based approach to designing and developing products is achieving its intended objective of producing high-quality products. The various assessments showed adherence to established policies in designing, executing, and reporting engagement results and greater involvement of specialists and other stakeholders, leading to high-quality, contextually sophisticated products and greater client satisfaction. We anticipate providing resources in fiscal 2004 for identifying and prioritizing process improvements.

We anticipate revising and publishing the 2-year performance goals for fiscal 2004 and fiscal 2005 as part of our fiscal 2005 performance budget.

**Table II.11: Strategic Goal 4's Two-Year Performance Goals, Fiscal 2002 and Fiscal 2003**

<input checked="" type="checkbox"/> Met	<input type="checkbox"/> Not Met	Strategic objective/performance goal
<b>Sharpen GAO's focus on clients' and customers' requirements</b>		
<input checked="" type="checkbox"/>		Continuously update client requirements
<input checked="" type="checkbox"/>		Develop and implement stakeholder protocols and refine client protocols
<input checked="" type="checkbox"/>		Identify and refine customer requirements and measures
<b>Enhance leadership and promote management excellence</b>		
<input checked="" type="checkbox"/>		Foster an attitude of stewardship to ensure a commitment to GAO's mission and core values
<input checked="" type="checkbox"/>		Implement an integrated approach to strategic management
<input checked="" type="checkbox"/>		Continue to provide leadership in strategic human capital management planning and execution
<input checked="" type="checkbox"/>		Maintain integrity in financial management
<input checked="" type="checkbox"/>		Use enabling technology to improve GAO's crosscutting business processes
<input checked="" type="checkbox"/>		Provide a safe and secure workplace
<b>Leverage GAO's institutional knowledge and experience</b>		
<input checked="" type="checkbox"/>		Expand GAO's use of the World Wide Web as a knowledge tool
<input type="checkbox"/>		Develop a framework to manage the collection, use, distribution, and retention of organizational knowledge
<input checked="" type="checkbox"/>		Strengthen relationships with other national and international accountability and professional organizations
<b>Continuously improve GAO's business and management processes</b>		
<input checked="" type="checkbox"/>		Reengineer internal business and administrative processes
<input type="checkbox"/>		Reengineer GAO's product and service lines
<input type="checkbox"/>		Improve GAO's job management processes
<b>Become the professional services employer of choice</b>		
<input checked="" type="checkbox"/>		Maintain an environment that is fair, unbiased, family friendly, and promotes and values opportunity and inclusiveness
<input checked="" type="checkbox"/>		Improve compensation and performance management systems
<input checked="" type="checkbox"/>		Develop and implement a training and professional development strategy targeted toward competencies
<input checked="" type="checkbox"/>		Provide our people with tools, technology, and a working environment that is world-class

Source: GAO.

Note: For a performance goal to be met, the responsible senior executive considers the amount of work conducted and/or recommendations made for each key effort as well as any other assistance provided to the client or customer that is related to these efforts. These senior executives then judge whether the work completed collectively for all key efforts actually achieved the performance goal. To view the 88 key efforts for the 19 performance goals above, go to [www.gao.gov/sp/spsupp.html](http://www.gao.gov/sp/spsupp.html).

## *Data Quality and Program Evaluation*

This section describes how we ensure the completeness and reliability of the performance data in this report and the program evaluations conducted during fiscal 2003 on our agency'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 standards and internal policies and procedures applied to our 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.

This year, as an additional check on the quality of our performance indicators, GAO's Office of Inspector General (IG) independently tested the support for annual performance measures and our 2-year performance goals. As part of this effort, the IG tested the teams' compliance with our established policies and procedures and found no material weaknesses involving any of the listed performance indicators. The specific sources of our performance data and other procedures for independently verifying and validating the data for each of our performance measures are shown in [table II.12](#). We continue to explore ways to strengthen our procedures to ensure data integrity.

**Table II.12: How We Ensure Data Quality for the Performance Measures**

<b>Financial benefits</b>	
Background and context	<p>Our work—including our 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, reduce the costs of multiyear projects and entitlements, or 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>Financial benefits are linked to specific recommendations or other work. To claim that financial benefits have been achieved, our staff must document the cause-and-effect relationship between the benefits reported and work performed. This documentation must take place within 2 years after the benefit has been identified in order for it to be included in our performance results and must be based on estimates obtained from independent third parties on the benefits' monetary value. Prior to fiscal 2002, we limited the period over which the benefits from an accomplishment could be accrued to no more than 2 years. Beginning in fiscal 2002, we extended 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 financial benefits. We retained the 2-year maximum for all other accomplishments. Also, in fiscal 2002, we began requiring all financial 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 our work. As a result, the amount of financial benefits is a conservative estimate.</p>
Data sources	<p>Our Accomplishment Reporting System provides the data for this measure. Teams use this automated system to prepare, review, and approve accomplishments and forward them to the Quality and Continuous Improvement (QCI) office for its review.</p> <p>Once accomplishment reports are approved, they are compiled by QCI, which annually tabulates total benefits by goal and agencywide. All financial benefits are calculated in net present value.</p>
Verification and validation	<p>Policies and procedures guide the estimation of financial benefits and their attribution to our work.</p> <p>The teams identify when a financial benefit has occurred as a result of our work. Teams develop estimates based on independent sources such as the agency that acted on our work, a congressional committee, or the Congressional Budget Office and file accomplishment reports based on those estimates. The estimates are reduced by any identifiable offsetting costs. Teams develop workpapers to support accomplishments with evidence that meets our evidence standard; supervisors review the workpapers; an independent person within GAO reviews the accomplishment report; and the team's Managing Director or Director approves the accomplishment report. The team forwards the report to QCI.</p> <p>QCI provides summary data on approved financial benefits to unit managers, who check the data on a regular basis to make sure that approved accomplishments from their staff have been accurately recorded. QCI reviews all accomplishment reports and approves accomplishment reports claiming benefits of \$100 million or more. In fiscal 2003, QCI approved accomplishment reports covering 95 percent of the dollar value of financial benefits we reported.</p> <p>GAO's IG also reviews accomplishment reports claiming benefits of \$500 million or more. In fiscal 2003, the IG reviewed accomplishment reports covering 79 percent of the dollar value of financial benefits we claimed.</p> <p>Additionally, during fiscal 2003, the IG independently tested compliance with our process for claiming financial benefits amounting to less than \$100 million and determined that we have a reasonable basis for claiming these benefits.</p>
Data limitations	<p>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.</p>

**Other benefits**

Background and context	<p>The other benefits that we report reflect instances in which (1) information we provided to the Congress resulted in statutory or regulatory changes, (2) agencies took actions in response to our findings and recommendations to improve government services and operations, or (3) our 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, the teams must file accomplishment reports that document the actions that have been taken and the cause-and-effect relationship between the actions and our work.</p>
Data sources	<p>Our Accomplishment Reporting System provides the data for this measure. Teams use this automated system to prepare, review, and approve accomplishments and forward them to QCI for its review.</p> <p>Once accomplishment reports are approved, they are compiled by QCI, which annually tabulates total benefits by goal and agencywide.</p>
Verification and validation	<p>Policies and procedures require accomplishment reports to record the other benefits of our findings and recommendations.</p> <p>Staff in the teams file accomplishment reports to claim that benefits have resulted from their work. Teams develop workpapers to support accomplishments with evidence that meets our evidence standard; supervisors review the workpapers; an independent person within GAO reviews the accomplishment report; and the team's Managing Director or Director approves the accomplishment report to ensure the appropriateness of the claimed accomplishment, including attribution to our work.</p> <p>The team forwards the report to QCI where it is reviewed for appropriateness. QCI 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.</p> <p>Additionally, during fiscal 2003, the IG independently tested compliance with our process for claiming other benefits and found them to be reasonable. The IG suggested actions to strengthen documentation of other benefits and we will implement these changes in fiscal 2004.</p>
Data limitations	<p>We cannot always document a direct cause-and-effect relationship between our work and benefits it produced. As a result, the number of other benefits is underreported and is a conservative measure of our overall contribution toward improving government.</p>

**Past recommendations implemented**

Background and context	<p>We make recommendations designed to improve the operations of the federal government. For our 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 2003 implementation rate is the percentage of recommendations made in fiscal 1999 products that were implemented by the end of fiscal 2003). 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 our activities during the fiscal year in which the data are reported. For example, the cumulative percentage of recommendations made in fiscal 1999 that were implemented in the ensuing years is as follows: 40 percent by the end of the first year (fiscal 2000); 44 percent by the end of the second year; 56 percent by the end of the third year; and 82 percent by end of the fourth year.</p>
Data sources	<p>Our document database records recommendations as they are issued. The database is updated daily. As our staff monitor implementation of recommendations, they submit updated information to the database.</p>

Verification and validation	<p>Through a formal process, an external contractor (currently Lockheed Martin Corporation) maintains the database of our recommendations by reviewing all of our written products as they are distributed, identifying the recommendations made, entering them into the database, and verifying the information through our recommendation follow-up system.</p> <p>Policies and procedures specify that our staff must verify, with sufficient supporting documentation, that an agency's reported actions are adequately being implemented. Staff update the status of the recommendations on a periodic basis. To accomplish this, our staff may interview agency officials, obtain agency documents, access agency databases, or obtain information from an agency's IG. Recommendations that are reported as implemented are reviewed by the senior executive in charge of the unit and by QCI.</p> <p>Summary data are provided to the units that issued the recommendations. The units check the data regularly to make sure the recommendations they have reported as implemented have been accurately recorded. We also report annually to the Congress on the status of recommendations that have not been implemented and we maintain a publicly available database of open recommendations that is updated daily.</p> <p>Additionally, during fiscal 2003, the IG independently tested our process for calculating the percentage of recommendations made in fiscal 1999 products that had been implemented and determined that it was reasonable.</p>
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Data limitations	<p>We sometimes differ with the affected agencies 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.</p>
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#### Recommendations made and percentage of products with recommendations

Background and context	<p>We make recommendations that specify actions that can be taken to improve federal operations or programs. We strive for recommendations that are directed at resolving the cause of identified problems; that are addressed to parties who have the authority to act; and that are specific, feasible, and cost-effective. Some products we issue contain no recommendations and are strictly informational in nature.</p> <p>We track the number of recommendations made in products that are issued during the fiscal year. We also track the percentage of our written products that are issued during the fiscal year and contain recommendations. The latter indicator recognizes that the number of recommendations alone is not necessarily a predictor of effect and allows us to respond to requests for informational products. 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>
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Data sources	<p>Our document database records recommendations as they are issued. The database is updated daily. As our staff monitor implementation of recommendations, they submit updated information to the database.</p>
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Verification and validation	<p>Through a formal process, an external contractor maintains the database of our recommendations by reviewing all of our products distributed, identifying the recommendations made, entering them into the database, and verifying the information through our recommendation follow-up system.</p> <p>Our 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.</p> <p>Additionally, during fiscal 2003, the IG independently tested the teams' compliance with our policies and procedures and determined that the number of recommendations and the percentage of written products with recommendations are reasonable.</p>
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Data limitations	<p>These measures are a conservative estimate of the extent to which we assist the Congress and federal agencies because not all products and services we provide lead to recommendations. For example, the Congress may request information on federal programs that is purely descriptive or analytical and does not lend itself to recommendations.</p>
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**Testimonies**

**Background and context** The Congress may ask us to 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. In cases where multiple GAO witnesses with separate testimonies appear at a single hearing, we count the case as a single testimony. Also, agencies sometimes implement corrective actions during the course of our work.

**Data sources** The data on hearings at which we testify are compiled in our congressional hearing system.

**Verification and validation** The units responding to requests for testimony are responsible for entering data in the congressional hearing system.

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

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

Additionally, during fiscal 2003, the IG independently examined the process for recording the number of hearings where we testified and determined that it is reasonable.

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

**Timeliness**

**Background and context** The likelihood that our products will be used is enhanced if they are delivered when needed to support congressional and agency decision making. To determine whether our products are timely, we measure the proportion of our products that are issued by the dates agreed to with our clients or, for our research and development work, by the dates agreed to internally.

**Data sources** The data supporting this measure are from our Mission and Assignment Tracking System, which is used to monitor our progress on assignments.

**Verification and validation** Our staff enter the data supporting this measure into our Mission and Assignment Tracking System. QCI monitors the data in this system, and aggregate and assignment-specific timeliness data are given to units monthly, allowing them to raise and seek resolution 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.

Additionally, during fiscal 2003, the IG independently examined our process for calculating product timeliness and found it to be reasonable.

**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.

**2-year qualitative performance goals**

**Background and context** Assessing the extent to which we achieve 2-year performance 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. In this case, they cover fiscal 2002 to fiscal 2003.

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 senior executives for strategic goals 1 through 3—our external goals—considers the number of reports issued and recommendations made for each key effort as well as any other assistance provided the Congress related to these efforts. Senior executives then judge whether the work completed collectively for all key efforts actually achieved the performance goal. For strategic goal 4—our internal goal—senior executives also judge whether the performance goals have been met based on the work done on the goal’s key efforts.



Data sources	The data supporting this measure are from our senior executives' assessments, which are supported by documentation, of work completed under performance goals' key efforts. The supporting documentation comes from our automated Mission and Assignment Tracking System and document database for strategic goals 1 through 3 and from reports produced by the managers responsible for each key effort for strategic goal 4.
Verification and validation	<p>We consult with our congressional clients and other outside experts in setting our 2-year performance goals.</p> <p>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. The assessment of the performance goals under strategic goal 4 is supported by documentation showing the work completed under each key effort and signed by a Managing Director.</p> <p>QCI provides this information to our managers several times a year so that they can check its accuracy. QCI also reviews the assessments and supporting documentation for all performance goals to ensure that criteria are consistently applied and that requirements are met.</p> <p>Additionally, during fiscal 2003, the IG independently tested our process for determining whether performance goals are met and found it to be reasonable. The IG suggested actions to strengthen documentation of these qualitative performance goals and we have implemented these actions.</p>
Data limitations	Professional judgment must be applied when assessing the work done under each performance goal and when reviewing those assessments.

Source: GAO.

## Program Evaluation

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

In addition, we actively monitor the status of our open recommendations—those that remain valid but have not yet been implemented—and report our findings annually to the Congress and the public ([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. For example, if an agency has not implemented a recommended action that we consider to be worthwhile, we may decide to pursue further action with agency officials or congressional committees, or we may decide to undertake additional work on the matter.

We also use our biennial performance and accountability series reports ([www.gao.gov/pas/2003/](http://www.gao.gov/pas/2003/)) to help assess the extent to which we are achieving our strategic objectives under goals 1, 2, and 3. This series addresses a range of challenges and opportu-

nities to enhance performance and accountability governmentwide and at federal agencies. The series also includes a companion volume, discussed in Part I of this report, 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 because it helps us to identify those areas where our continued efforts are needed to maintain the focus on important policy and management issues that the nation faces.

To help us assess our progress toward the strategic objectives under goal 4, which focuses on improving our internal operations, we completed a number of studies and evaluations. Most of these evaluations are related to goal 4's strategic objectives and result in internal products or briefings that are not available publicly.

■ **The status of our financial management.** As part of our effort to be a model agency, in fiscal 2003 we retained the independent audit firm, Cotton & Co., LLP, to audit our financial statements. The auditors issued an unqualified opinion. We also conducted internal reviews of our compliance with requirements set forth in 31 U.S.C. 3512 (commonly referred to as the Federal

Managers' Financial Integrity Act) and the Office of Management and Budget's Circular A-127, *Financial Management Systems*. We reviewed aspects of our Financial Management System, including security controls, and assessed its consistency with the Standard General Ledger. These reviews uncovered no problems and showed that we have the proper controls in place and that they are being followed.

- **The accessibility of our products.** We completed an assessment of our external Web site's usability in fiscal 2003. The assessment and a Web site customer satisfaction survey developed by the American Customer Satisfaction Index indicated high levels of satisfaction as well as opportunities for improvement. As a result, we are redesigning our Web site to increase access and enhance the usability of the information.
- **The status of our information security program.** To assess the status of our 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 IT controls for our general support system by our IT auditors, who are independent of our IT support function and conduct these audits on other agencies. These reviews and evaluations identified no material weaknesses in our financial applications or general support system. They also showed that we are making substantial progress in implementing information security requirements consistent with the Federal Information Security Management Act.<sup>11</sup> This assessment is discussed in appendix 4.
- **The effectiveness of our recruiting initiatives and human capital practices.** To determine whether our recruitment efforts are effective, we collected data on how well we met our hiring goals and on other people measures. An analysis of the summary data showed that we met all of our goals for the number of staff hired in each Band and at the Senior Executive Service level, had a 72 percent acceptance rate of our hiring offers, and had a 7.7 percent attrition rate. We provided this summary data in a year-end report

to our Office of Opportunity and Inclusiveness and other GAO managers. The Comptroller General's Educators' Advisory Panel also advised the agency on recruiting, retaining, and developing staff and discussed strategies, best practices, operations, and emerging issues and trends related to our human capital efforts to develop a results-oriented workforce.

- **Status of our IT support services.** This fiscal year, The Gartner Group performed an independent review of our IT application support and development services and determined that we are delivering excellent and cost-efficient support and services to the agency. Gartner reviewed various aspects of our fiscal 2002 IT operations, such as our applications development performance as well as managerial and technical processes. Gartner scored us "above average" in several categories, including productivity, effectiveness, and user satisfaction, and "better than average" in cost-efficiency.
- **Our asset management activities.** The Gartner Group completed an assessment of our asset management systems and processes. Their report included process improvement recommendations, information on asset management best practices, and guidance in developing requirements for a new automated inventory system. One of our fiscal 2004 key efforts will be directed at implementing these recommendations.
- **Assessment of our compensation and performance management system for analysts.** Our Human Capital Office oversaw the evaluation of the performance-based compensation system for analysts and specialists which was implemented in fiscal 2002. The Human Capital Office conducted individual interviews with each Managing Director, a focus group consisting of representatives from our Employee Advisory Council (EAC), and compiled data that the EAC collected from surveying its constituents for feedback on system improvements. Using these data, we identified short- and long-term improvements to the system. The short-term improvements focused on areas such as (1) better understanding and

<sup>11</sup>While we are not obligated by law to comply with this act, we are adopting its requirements to help ensure that we establish an effective information security program and to fulfill our goal of being a model federal agency.

application of the performance standards, including additional mandatory but targeted training; (2) adjusting the pay categories; (3) reviewing the timing of the notification of pay panel results; and (4) using the achievement statement as a tool to break pay panel ties. We implemented all of the short-term improvements and are working on implementing the long-term improvements, which focused on (1) studying and resolving obstacles to restructuring the bands; (2) sharpening distinctions in standards within competencies and across bands to promote more accurate and consistent application of the standards; (3) exploring

combining, eliminating, and/or weighting some competencies; and (4) rewriting and revalidating performance standards to reflect changes in banding or competencies.

Finally, our IG evaluates the administration of the agency. These evaluations are useful in ensuring that our operations are efficient and economical. As mentioned previously in this report, the IG examined our process for assessing our performance measures this year and found them to be reasonable. The IG also reviewed management's assessment of the agency's management challenges and concurred with management's assessment.





**Part III:  
Financial  
Information**

## *From the Chief Financial Officer*

November 14, 2003

I am pleased to report that, for the 17th consecutive year, GAO's financial statements have received an unqualified opinion from our independent auditors. I am particularly proud of this achievement because the financial statements for fiscal 2003 were prepared, and the audit completed, a month earlier than last year and a year ahead of the accelerated schedule mandated by the Office of Management and Budget. For a



Source: GAO.

second year in a row, the Association of Government Accountants awarded us a certificate of excellence; this year, the award was for the fiscal 2002 annual performance and accountability report.

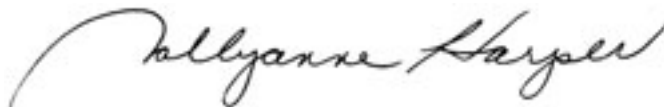
Our agency continued to make an impact in 2003. Our reports drew attention to problem areas across government and led to hundreds of actions by the Congress and agency heads to help government work better. In addition to providing accurate, timely, and useful information on day-to-day government operations, we alerted policymakers and the public to

emerging and long-term issues with significant national implications. We informed the congressional debate on such diverse subjects as the federal government's financial condition and fiscal outlook, homeland security, food safety, the postal service, the nation's private pension system, prescription drugs, and investor protections.

Although the agency is significantly smaller than it was a decade ago—with just over 3,250 employees on its payroll now—we have continued to provide the taxpayer with an excellent return on investment and a long list of improvements to federal programs and policies. In fact, we remain one of the best values in government today. In fiscal 2003, our work produced \$35.4 billion in measurable financial benefits—a \$78 return on every dollar invested in us.

We made significant progress last year toward our goal of becoming a model federal agency and a world-class professional services organization. We launched a host of operational improvements in such key areas as strategic management, congressional outreach, human capital, safety and security, and information technology. To help us improve our performance and better meet the needs of our customers, we introduced an in-house customer satisfaction survey and a balanced scorecard methodology for our mission support side. We also procured a new asset management system, rolled out our new e-travel system, and upgraded our online time and attendance record keeping system. Initiatives such as these have kept us in the vanguard of change both in government and private industry.

To be an effective advocate for “good government,” our internal operations must be efficient, transparent, and accountable. In the coming year, we will continue to explore innovative ways to do our work and to hold ourselves accountable for getting results.

A handwritten signature in black ink that reads "Sallyanne Harper". The signature is written in a cursive, flowing style.

Sallyanne Harper  
Chief Financial Officer

## Overview of Financial Statements

Our financial statements and accompanying notes begin on [page 78](#). Our financial statements for the fiscal years ended September 30, 2003 and 2002, were audited by an independent auditor, Cotton & Co., LLP.

Cotton & Co., LLP, rendered an unqualified opinion on our financial statements and an unqualified opinion on the effectiveness of our internal controls over financial reporting and compliance with laws and regulations. The auditor also reported that we have substantially complied with the applicable requirements of the Federal Financial Management Improvement Act (Improvement Act) of 1996 and found no reportable instances of noncompliance with certain provisions of laws and regulations tested. In the opinion of the independent auditor, the financial statements are presented fairly in all material respects and are in conformity with U.S. generally accepted accounting principles.

### Financial Systems and Internal Controls

We recognize the importance of strong financial systems and internal controls to ensure our accountability, integrity, and reliability. To achieve a high level of quality, management maintains a quality control program and seeks advice and evaluation from both internal and external sources.

We are committed to fulfilling the internal control objectives of 31 U.S.C. 3512, commonly referred to as the Federal Managers' Financial Integrity Act (Integrity Act). Although we are not subject to the act, we comply voluntarily with its requirements. Our internal controls are designed to provide reasonable assurance that obligations and costs are in compliance with applicable laws and regulations; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and revenues and expenditures applicable to our



Source: See Image Sources.

operations are properly recorded and accounted for to enable us to prepare reliable financial reports and maintain accountability over our assets.

Our 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 (OMB) guidance for implementing the Integrity Act. The results of these reviews are discussed with our Audit Advisory Committee, and action is taken to correct deficiencies as they are identified.

We assessed our internal controls as of September 30, 2003, 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, 2003, we have effective internal controls in place and no outstanding material weaknesses. Additionally, our independent auditor found that we maintained effective internal controls over financial reporting and compliance with laws and regulations. Consistent with our evaluation, the auditor found no material internal control weaknesses.

In addition, we are committed to fulfilling the objectives of the Improvement Act, which is also covered within 31 U.S.C. 3512. Although not subject to the act, we voluntarily comply with its requirements. We believe that we have implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting stan-



dards, and the United States Government Standard General Ledger at the transaction level as of September 30, 2003. We made this assessment based on criteria established under the Improvement Act and guidance issued by OMB. Also, our auditor reported that we had substantially complied with the applicable requirements of the Improvement Act as of September 30, 2003.

Our Office of Inspector General (IG) also conducts audits and investigations and functions as an independent fact-gathering adviser to the Comptroller General. This year, our IG tested compliance with procedures and methodologies used to calculate the following performance measures: financial benefits less than \$100 million, number of other benefits, percentage of past recommendations implemented, new recommendations made, percentage of new products with recommendations, number of testimonies, timeliness, and the 2-year performance goals. These performance measures fairly represent our performance. There are nine open recommendations and management is in agreement with these recommendations and plans to take action on them. There are no unresolved issues.

Our Audit Advisory Committee assists the comptroller general in overseeing the effectiveness of our financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to our financial operations. As of September 30, 2003, the committee consisted of Sheldon S. Cohen (Chairman), Edward J. Mazur, and Charles O. Rossotti, whose relevant experience was described earlier in this report. The committee's report follows our financial statements and accompanying notes.

### *Limitations on Financial Statements*

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in this report rests with our managers. The statements were prepared to report our financial position and results of operations, consistent

with the requirements of the Chief Financial Officers Act, as amended (31 U.S.C. 3515). The statements were prepared from our financial records in accordance with the formats prescribed in OMB's Bulletin 01-09, *Form and Content of Agency Financial Statements*. These financial statements differ from the financial reports used to monitor and control our budgetary resources; however, both were prepared from the same financial records.

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

### *Purpose of Each Financial Statement*

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

- The balance sheet presents the combined amounts we had available to use (assets) versus the amounts we owed (liabilities) and the residual amounts after liabilities were subtracted from assets (net position).
- The statement of net cost presents the annual cost of our operations. The gross cost less any offsetting revenue earned from our activities is used to arrive at the net cost of work performed under our four strategic goals.
- 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 us 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 us with the net cost of operating the agency.

**Financial Statements**  
**U.S. General Accounting Office**  
**Balance Sheet**  
**As of September 30, 2003 and 2002**  
(Dollars in thousands)

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Intragovernmental		
Funds with the U.S. Treasury and cash (Note 2)	\$69,382	\$62,055
Accounts receivable (Note 1)	506	387
<b>Total Intragovernmental</b>	<u>69,888</u>	<u>62,442</u>
Property and equipment, net (Note 3)	57,928	63,888
Other (Note 1)	414	486
<b>Total Assets</b>	<u>\$128,230</u>	<u>\$126,816</u>
<b>Liabilities</b>		
Intragovernmental		
Accounts payable (Note 1)	\$7,789	\$11,044
Employee benefits (Note 5)	1,416	1,185
Workers' compensation (Note 4 and 6)	1,922	2,102
Deferred lease revenue (Note 4 and 7)	-	2,514
<b>Total Intragovernmental</b>	<u>11,127</u>	<u>16,845</u>
Accounts payable (Note 1)	11,936	13,023
Salaries and benefits (Note 4 and 5)	11,347	10,204
Accrued annual leave and other (Note 4)	30,415	29,357
Workers' compensation (Note 4 and 6)	11,093	12,331
Capital leases (Note 4 and 8)	9,647	9,968
<b>Total Liabilities</b>	<u>85,565</u>	<u>91,728</u>
<b>Net Position</b>		
Unexpended appropriations	40,327	29,925
Cumulative results of operations	2,338	5,163
<b>Total Net Position</b>	<u>42,665</u>	<u>35,088</u>
<b>Total Liabilities and Net Position</b>	<u>\$128,230</u>	<u>\$126,816</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, 2003 and 2002**  
(Dollars in thousands)

	<u>2003</u>	<u>2002</u>
<b>Net Costs by Goal</b>		
<b>Goal 1: Well-Being/Financial Security of American People</b>	\$186,443	\$178,455
Less: reimbursable services	-	(74)
<b>Net goal costs</b>	<u>186,443</u>	<u>178,381</u>
<b>Goal 2: Changing Security Threats/Challenges of Global Interdependence</b>	122,031	110,692
Less: reimbursable services	(56)	(155)
<b>Net goal costs</b>	<u>121,975</u>	<u>110,537</u>
<b>Goal 3: Transforming the Federal Government's Role</b>	146,509	142,204
Less: reimbursable services	(1,648)	(1,237)
<b>Net goal costs</b>	<u>144,861</u>	<u>140,967</u>
<b>Goal 4: Maximize the Value of GAO</b>	19,982	25,278
Less: reimbursable services	-	-
<b>Net goal costs</b>	<u>19,982</u>	<u>25,278</u>
<b>Less: reimbursable services not attributable to goals</b>	<u>(2,153)</u>	<u>(2,128)</u>
<b>Net Cost of Operations (Note 9)</b>	<u><u>\$471,108</u></u>	<u><u>\$453,035</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, 2003 and 2002**  
(Dollars in thousands)

	2003 Cumulative Results of Operations	2003 Unexpended Appropriations	2002 Cumulative Results of Operations	2002 Unexpended Appropriations
<b>Balances, Beginning of Fiscal Year</b>	\$5,163	\$29,925	\$15,349	\$21,258
<b>Budgetary Financing Sources</b>				
Current year appropriations	-	453,051	-	421,844
Transfers of budget authority (Note 10)	-	-	-	7,600
Lapsed budget authority	-	(1,552)	-	(1,731)
Appropriations used	441,097	(441,097)	419,046	(419,046)
<b>Other Financing Sources</b>				
Intragovernmental transfer of property and equipment	(85)	-	(222)	-
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 5)	24,757	-	21,007	-
Amortization of deferred lease revenue (Note 7)	2,514	-	3,018	-
<b>Total Financing Sources</b>	468,283	10,402	442,849	8,667
<b>Net Cost of Operations</b>	(471,108)	-	(453,035)	-
<b>Balances, End of Fiscal Year</b>	<u>\$2,338</u>	<u>\$40,327</u>	<u>\$5,163</u>	<u>\$29,925</u>

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, 2003 and 2002**  
(Dollars in thousands)

	<u>2003</u>	<u>2002</u>
<b>Budgetary Resources (Note 10)</b>		
Current year appropriations	\$453,051	\$421,844
Transfers of budget authority	-	7,600
Unobligated appropriations, beginning of fiscal year	14,198	7,512
Reimbursable services (Note 9)	3,857	3,594
Cost sharing and pass-through CPA contract reimbursements	3,243	2,093
	<u>\$474,349</u>	<u>\$442,643</u>
<b>Total Budgetary Resources</b>		
<b>Status of Budgetary Resources</b>		
Obligations incurred	\$453,902	\$426,714
Unobligated appropriations, end of fiscal year	18,895	14,198
Lapsed budget authority	1,552	1,731
	<u>\$474,349</u>	<u>\$442,643</u>
<b>Total Status of Budgetary Resources</b>		
<b>Relationship of Obligations to Outlays</b>		
Obligations incurred	\$453,902	\$426,714
Obligated balance, net - beginning of fiscal year	47,856	48,970
Less: Obligated balance, net - end of fiscal year	(50,487)	(47,856)
	<u>451,271</u>	<u>427,828</u>
<b>Total Outlays</b>	<b>451,271</b>	<b>427,828</b>
Less: Reimbursable services	(3,857)	(3,594)
Cost sharing and pass-through CPA contract reimbursements (Note 10)	(3,243)	(2,093)
	<u>\$444,171</u>	<u>\$422,141</u>
<b>Net Outlays</b>		
<b>Outlays</b>		
Disbursements	\$451,271	\$427,828
Collections	(7,100)	(5,687)
	<u>\$444,171</u>	<u>\$422,141</u>
<b>Net Outlays</b>		

The accompanying notes are an integral part of these statements.

**PART III**

**Financial Statements**  
**U.S. General Accounting Office**  
**Statement of Financing**  
**For Fiscal Years Ended September 30, 2003 and 2002**  
(Dollars in thousands)

	<u>2003</u>	<u>2002</u>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$453,902	\$426,714
Less: Reimbursable services (Note 9)	(3,857)	(3,594)
Cost sharing and pass-through CPA contract reimbursements (Note 10)	(3,243)	(2,093)
Net obligations	<u>446,802</u>	<u>421,027</u>
<b>Other Resources</b>		
Intragovernmental transfer of property and equipment	(85)	(222)
Federal employee retirement benefit costs paid by OPM and imputed to GAO (Note 5)	24,757	21,007
Amortization of deferred lease revenue (Note 7)	2,514	3,018
Net other resources used to finance activities	<u>27,186</u>	<u>23,803</u>
<b>Total resources used to finance activities</b>	473,988	444,830
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net increase in unliquidated obligations	(5,705)	(1,980)
Costs capitalized on the balance sheet	(14,304)	(13,180)
<b>Total resources used to finance items not part of the net cost of operations</b>	<u>(20,009)</u>	<u>(15,160)</u>
<b>Total resources used to finance the net cost of operations</b>	453,979	429,670
<b>Components That Generate/Require Resources in Future Periods</b>		
(Increase)/Decrease in Workers' Compensation, Accrued Annual Leave, and Other Liabilities (Note 11)	(341)	6,213
<b>Costs That Do Not Require Resources</b>		
Depreciation	<u>17,470</u>	<u>17,152</u>
<b>Net Cost of Operations</b>	<u><u>\$471,108</u></u>	<u><u>\$453,035</u></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 U.S. 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: See Image Sources.

### 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 OMB Bulletin 01-09, *Form and Content of Agency 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 qualifies as a multi-use heritage asset and is GAO's only heritage asset. The designation of multi-use heritage asset is a result of both being listed in the National Register of Historic

**PART III**

Places and being used in general government operations. Maintenance of the building has been kept on a current basis. The building is depreciated on a straight-line basis over 25 years.

For fiscal 2003, GAO increased the dollar thresholds used to capitalize property and equipment. Property and equipment costing more than \$15,000 are capitalized at cost. Building improvements and leasehold improvements are capitalized when the cost is \$25,000 or greater. Bulk purchases of lesser-value items that aggregate more than \$150,000 are also capitalized at cost. During fiscal 2002, the thresholds used were \$5,000 for both building/leasehold improvements and property and equipment, and \$100,000 for bulk purchases. 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, 2003 and 2002, is as follows:

<b>Dollars in thousands</b>		
	<b>2003</b>	<b>2002</b>
Operating supplies to be consumed in normal operations (valued at cost)	\$363	\$404
Other receivables	51	82
<b>Total Other Assets</b>	<b>\$414</b>	<b>\$486</b>

*Liabilities*

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

Intragovernmental liabilities arise from transactions with other federal entities. Detail of GAO's intragovernmental liabilities by agency as of September 30, 2003 and 2002 is as follows:

**Dollars in thousands**

<b>Agency</b>	<b>2003</b>	<b>2002</b>
General Services Administration	\$6,992	\$8,793
U.S. Army Corps of Engineers	10	3,716
Office of Personnel Management	1,106	903
Department of Labor	2,059	2,332
All others	960	1,101
<b>Total Intragovernmental Liabilities</b>	<b>\$11,127</b>	<b>\$16,845</b>

*Accounts Payable*

Accounts Payable consists 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 services to GAO. The pension expense recognized in the financial statements equals the current service cost for GAO's employees for the accounting period less the amount contributed by the employees. OPM, the administrator of the plan, supplies GAO with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense over the amount contributed by GAO and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing to GAO (see Note 5).

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 as resources 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, 2003 and 2002, is as follows:

Dollars in thousands		
	2003	2002
Unobligated balance		
Available	\$10,214	\$7,898
Unavailable	8,664	6,300
Obligated balances not yet disbursed	50,487	47,821
Total Funds with U.S. Treasury	69,365	62,019
Cash	17	36
Total Funds with U.S. Treasury and Cash	<u>\$69,382</u>	<u>\$62,055</u>

*Note 3. Property and Equipment, Net*

The composition of property and equipment as of September 30, 2003, is as follows:

## Dollars in thousands

Classes of property and equipment	Acquisition value	Accumulated depreciation	Book value
Building	\$15,664	\$9,398	\$6,266
Land	1,191	-	1,191
Building improvements	106,427	80,306	26,121
Computer and other equipment, and software	32,872	18,517	14,355
Leasehold improvements	5,036	4,793	243
Assets under capital lease	28,728	18,976	9,752
Total property and equipment	<u>\$189,918</u>	<u>\$131,990</u>	<u>\$57,928</u>

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

## Dollars in thousands

Classes of property and equipment	Acquisition value	Accumulated depreciation	Book value
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>

In fiscal 2002 a full inventory 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, 2003 and 2002, 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, 2003 and 2002, is as follows:

Dollars in thousands		
	2003	2002
<b>Intragovernmental liabilities</b>		
Workers' compensation	\$1,922	\$2,102
Deferred lease revenue	-	2,514
<b>Total intragovernmental liabilities</b>	<b>1,922</b>	<b>4,616</b>
<b>Salaries and benefits—Comptrollers</b>		
General retirement plan	2,875	2,856
Accrued annual leave and other	30,415	29,357
Workers' compensation	11,093	12,331
Capital leases	9,647	9,968
<b>Total liabilities not covered by budgetary resources</b>	<b>\$55,952</b>	<b>\$59,128</b>

## Note 5. Federal Employee Benefits

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes contributions to CSRS, FERS, and FICA and matches certain employee contributions to the thrift savings component of FERS. The pension expense recognized in GAO's financial statements for fiscal 2003 and fiscal 2002 amounted to approximately \$39,672,000 and \$36,979,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of \$13,876,000 and \$11,145,000, respectively. To the extent that employees are covered by FICA,

the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's financial statements. However, the payments to FICA that GAO makes are recognized as operating expenses. During fiscal 2003 and fiscal 2002, these payments amounted to approximately \$13,556,000 and \$12,164,000, 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 2003 and fiscal 2002 amounted to approximately \$7,097,000 and \$6,090,000, 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 (FEGCLIP) and may continue to participate after retirement. GAO makes contributions through OPM to FEHBP and FEGCLIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses and, during fiscal 2003 and fiscal 2002, amounted to approximately \$13,191,000 and \$11,704,000, respectively. 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 \$10,881,000 and \$9,862,000 during fiscal 2003 and fiscal 2002, respectively, and are financed by OPM and imputed to GAO.

Amounts owed to OPM and Treasury as of September 30, 2003 and 2002 are \$1,416,000 and \$1,185,000, respectively for FEHBP, FEGCLIP, FICA, FERS, and CSRS contributions and are shown on the Balance Sheet as an employee benefits liability.

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 approximately \$272,000 and \$267,000 during fiscal 2003 and fiscal 2002, respectively. Because GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits of \$2,875,000 as of September 30, 2003, and

\$2,856,000 as of September 30, 2002, is included as a component of salary and benefit liabilities on GAO's Balance Sheet.

## 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, and again in 2003, GAO used estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other federal agencies.

GAO recorded an estimated liability for claims incurred but not reported as of September 30, 2003 and 2002, which is expected to be paid in future periods. This estimated liability of \$11,093,000 and \$12,331,000 as of September 30, 2003 and 2002, respectively, is reported on GAO's Balance Sheet. GAO also recorded a liability for amounts paid to claimants by DOL as of September 30, 2003 and 2002, of \$1,922,000 and \$2,102,000, 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 has repaid COE for the entire cost of the renovations in the form of rental credits during the first 3 lease years. Rental credits were recorded as deferred lease revenue and were amortized over the original 3-year lease term ending in fiscal 2003. The current year amortization of deferred lease revenue is reported on the Statement of Changes in Net Position as an other 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 2003 and fiscal 2002 rents received by GAO, net of the deferred lease revenue amortization, amounted to \$1,619,000 and \$1,489,000, respectively. This amount is included in reimbursable services on the Statements of Budgetary Resources and Financing. Total rental revenue for the remaining period of the 10-year lease is as follows:

### Dollars in thousands

Fiscal year ending September 30	Total rental revenue <sup>a</sup>
2004	\$4,799
2005	4,856
2006	4,916
2007	4,978
2008	5,045
2009 and thereafter	10,290
Total	\$34,884

<sup>a</sup>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, 2003 and 2002, the capital lease liability was \$9,647,000 and \$9,968,000, respectively.

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

Dollars in thousands	
Fiscal year ending September 30	Total
2004	\$5,682
2005	2,664
2006	1,470
2007	551
Total Estimated Future Lease Payments	10,367
Less: Imputed Interest	(720)
Net Capital Lease Liability	<u>\$9,647</u>

#### *Operating Leases*

GAO leases office space, predominately 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 2003 and fiscal 2002 amounted to approximately \$7,096,000 and \$6,880,000, respectively. 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
2004	\$7,779
2005	5,730
2006	4,007
2007	2,795
2008	1,417
2009 and thereafter	5,163
Total Estimated Future Lease Payments	<u>\$26,891</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 2003 and fiscal 2002 amounted to \$372,060,000 and \$351,088,000, respectively, which were about 79 percent and 78 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 \$24,757,000 in fiscal 2003 and \$21,007,000 in fiscal 2002.

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 2003 and fiscal 2002 amounted to \$3,857,000 and \$3,594,000, respectively. Of the revenues from reimbursable services received in fiscal 2003,

\$3,746,000 were intragovernmental—substantially from COE, \$1,621,000, and Federal Deposit Insurance Corporation (FDIC), \$1,505,000. Likewise, in fiscal 2002 the amount of revenues from reimbursable services from other governmental entities was \$3,399,000, of which \$1,503,000 was from COE and \$1,160,000 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, unobligated appropriations, and reimbursements arising from both revenues earned by GAO from providing goods and services to other federal entities for a price (reimbursable services), and cost-sharing and pass-through contract arrangements with other federal entities.

For fiscal 2002, differences exist between the appropriations on the Statement of Budgetary Resources (SBR) and the appropriations amount in the President's Budget. These differences are due to: 1) unobligated funds available in expired accounts not included in the President's Budget submission, and 2) reimbursements from cost-sharing and pass-through contract arrangements that could not have been anticipated at the time the President's Budget was developed. In addition, as the actual fiscal 2003 President's Budget is not yet available, comparison between the SBR and the President's Budget cannot be performed.

Fiscal 2003 has no budget transfers. 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. 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 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. Components that Generate/Require Resources in Future Periods*

Increases/decreases in workers' compensation, accrued annual leave and other liabilities are reported in the Statement of Financing. These changes represent the increases/decreases in liabilities not covered by budgetary resources, as reported in Note 4.

#### **Dollars in thousands**

<b>Fiscal year ending September 30</b>	<b>2003</b>	<b>2002</b>
Liabilities not covered by budgetary resources, as disclosed in Note 4	\$55,952	\$59,128
Liabilities that are not components of net cost:		
Deferred lease revenue	-	(2,514)
Capital leases	(9,647)	(9,968)
Current year liabilities not covered by budgetary resources that are components of net cost	46,305	46,646
Prior year liabilities that are not components of current year net costs	(46,646)	(40,433)
(Increase)/Decrease in Workers' Compensation, Accrued Annual Leave, and Other Liabilities, as reported on the Statement of Financing	<u>\$(341)</u>	<u>\$6,213</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 \$4,524,000 as of September 30, 2003. These

assets are neither the assets of GAO nor the federal government and are held for distribution to appropriate claimants. During fiscal 2003, receipts and disbursements in the trust amounted to \$994,000 and \$1,162,000, respectively. Because the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial statements.

## *Audit Advisory Committee's Report*

The Audit Advisory Committee (the 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 the U.S. generally accepted accounting principles. The Committee reviews the findings of the internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft performance and accountability report, including its financial statements, and provides comments to management who has primary responsibility for the performance and accountability report. The Committee met three times with respect to its responsibilities as described above. During these sessions, the Committee met with the internal and external auditors without GAO management being present and discussed with the external auditors the matters that are required to be discussed by *Statement on Auditing Standards No. 61, (Communications with Audit Committees)*. Based on procedures performed as outlined above, we recommend that GAO's audited statements and footnotes be included in the 2003 *Performance and Accountability Report*.



Sheldon S. Cohen  
Chairman  
Audit Advisory Committee

# 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 • LOREN SCHWARTZ, CPA, CISA

### 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, 2003 and 2002, 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, 2003 and 2002, 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, 2003, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).



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### 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, 2003.

### 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 2003 and 2002 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 Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 15, *Management's Discussion and Analysis*.

There are two types of material within GAO's Performance and Accountability Report that are 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 and 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;
- 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating 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, 2003, 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, 2003, 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 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 FFMIA*, 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, 2003. 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  
November 3, 2003





**Part IV:**  
**Appendixes**

# 1. *Accomplishments and Other Contributions*

In pursuing the General Accounting Office's (GAO) strategic goals during fiscal 2003, we recorded hundreds of accomplishments and made numerous other contributions. This appendix provides details on the most significant of these. In reporting accomplishments and other contributions, we are holding ourselves accountable for the resources we received to implement our strategic plan.

The accomplishments document financial or other benefits achieved through action on our findings or recommendations. Typically, the accomplishments describe work that we completed in prior fiscal

years because it takes time to implement recommendations, realize benefits, and record them. We did not include some contributions that were achieved in early fiscal 2003 but that were included in our fiscal 2002 performance and accountability report because the bulk of the work was performed in that year.

The other contributions, which typically refer to work completed in fiscal 2003, describe instances in which we provided information or recommendations that aided congressional decision making or informed the public debate to a significant degree.

## 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*

#### **1.1. Enhancing Quality of Care in Nursing Homes:**

In a series of reports and testimonies since 1998, we found that, too often, residents of nursing homes were being harmed and that programs to oversee nursing home quality of care at the Centers for Medicare & Medicaid Services (CMS) were not fully effective in identifying and reducing such problems. We assessed CMS's progress in addressing these weaknesses and, in a July 2003 report and associated testimony for the Senate Finance Committee, noted that, despite a decline in the proportion of nursing homes that harmed residents, the number of such homes remains unacceptably high. We made numerous recommendations to CMS's Administrator focusing on further improving the mechanisms available to CMS to oversee nursing home care.

#### **1.2. Eliminating Medicaid's Upper Payment Limit Loophole:**

In a series of products, we reported on a financing scheme that was used by some states to generate additional federal monies under the joint federal and state funded Medicaid program. Under this scheme, states took advantage of a loophole in Medicaid's upper payment limit requirement and created the illusion that they made large Medicaid payments in order to generate federal matching payments. In reality, states made these large payments to certain providers, such as local government-owned nursing homes, only to require the return of these payments to the states. Citing our work as key evidence, the Department of Health and Human Services developed and published a regulation in 2001 that phases out this loophole with resulting financial benefits to the federal government estimated at \$5.9 billion over the first 3 years of its implementation.



Source: See Image Sources.

#### **1.3. Increasing Oversight of Federal Employees' Pharmacy Benefits:**

Our review of the use of pharmacy benefit managers in the Federal Employees' Health Benefits Program (FEHBP) highlighted cost savings that pharmacy benefit managers achieve for FEHBP plans while providing generally broad access to prescription drugs and pharmacies. We also identified rising prescription drug costs as one of the key factors in FEHBP's recent premium increases. The report generated increased attention to the potential for pharmacy benefit managers to achieve savings for FEHBP plans, and the Office of Personnel Management (OPM) directed participating plans to ensure that they were obtaining maximum savings from the use of pharmacy benefit managers and announced that it would increase its oversight of FEHBP plans' use of these managers.

#### **1.4. Assisting the Congress in Medicaid Formula Enhancements:**

Budget pressures have required many states to reduce or freeze Medicaid payments, services, or eligibility and additional reductions have been proposed in numerous states. In response to these budgetary concerns, the Congress enacted the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provides a total of \$10 billion in enhanced Medicaid funding over 5 calendar quarters beginning April 1, 2003. We provided technical assistance to staff of the Senate Budget Committee and the House Energy and Commerce Committee as they deliberated tempo-

rary enhancements to the Medicaid formula used to provide the federal share of program costs. We then assisted in computing the effects of different enhancements to the Medicaid matching rate, culminating in the passage of the aforementioned act.

**1.5. Reducing Costs to Medicare of Providing Covered Outpatient Prescription Drugs:** We reported that Medicare payment for covered outpatient prescription drugs, which is based on the average wholesale price reported by drug manufacturers, is substantially higher than providers' acquisition costs. A 2001 report examined payment for 31 drugs that were either most frequently billed to Medicare or that resulted in the highest expenditures, and a 2003 report examined payment for blood clotting factor, a biological used to treat hemophilia that has unique delivery needs. CMS agreed with the findings of both reports, and legislation passed in both the House and Senate includes provisions that would reduce Medicare's payments to more closely reflect provider cost, which could result in hundreds of millions of dollars in federal cost reductions.

**1.6. Promoting Effectiveness of the Smallpox Vaccination Program:** In April 2003, we reported that the Centers for Disease Control and Prevention (CDC) faced major challenges in implementing the national smallpox vaccination program—a program developed as a result of the growing concern that terrorists might use the smallpox virus as an agent of bioterrorism. We recommended that CDC provide guidance to state and local jurisdictions on estimating response capacity needs and work with the jurisdictions to revise targets for the initial number of individuals to be vaccinated and the time to complete this effort. CDC subsequently issued guidance to help jurisdictions in their efforts to identify, train, and vaccinate those who would respond to a smallpox attack.

**1.7. Improving Protections for the Department of Veterans' Affairs (VA) Human Research Subjects:** In response to recent concerns about the safety of some VA research programs, the Congress asked us to assess VA's progress in implementing recommendations we made in 2000 for improving protections of the rights and welfare of veterans who participate in VA's biomedical and behavioral research programs. We also examined changes in VA's organizational

structure for monitoring and overseeing research. We provided the Congress with information relevant to proposed legislation that would establish an independent office within VA to oversee compliance with federal regulations for the protection of human subjects by testifying in June 2003 that VA had not taken sufficient actions to strengthen its human subject protection systems and noting the additional steps VA needed to take to better protect veterans who participate in research.

**1.8. Avoiding Costs Associated with an Increase in the Skilled Nursing Facilities Rate:** In 2000, the Congress—through the Medicare, Medicaid, and State Children's Health Assurance Program Benefits Improvement and Protection Act of 2000—increased the nursing component of Medicare's daily rate for skilled nursing facilities by 16.66 percent, effective April 1, 2001. The nursing component increase expired on October 1, 2002, and the Congress considered whether to reinstate it. The act directed us to assess the impact of the increase in the nursing component on nurse staffing ratios and to recommend whether the increased payments should continue. Our analysis indicated that, in the aggregate, skilled nursing facilities' nurse staffing ratios changed little after the increase in the nursing component of the Medicare payment rate took effect. We recommended that the Congress consider the increase in the Medicare payment rate as ineffective in raising nurse staffing ratios when determining whether to reinstate the nursing component increase. During the fall 2002 through the spring 2003, the nursing facility industry sharply criticized our report and strongly urged the Congress to restore the expired nursing component payment increase. To date, the nursing component increase has not been reinstated. This financial benefit—estimated at \$1 billion—represents the cost avoidance associated with not reinstating the program for fiscal 2003.

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

**1.9. Improving Implementation of the New Education Law:** The No Child Left Behind Act of 2001 increased accountability for states and school districts to improve student achievement, while also providing states and school districts with additional



flexibility to use federal funds to meet education needs. In two recent reports, we highlighted early implementation issues related to provisions in the act—the cost of testing and the design of the flexibility demonstration programs. In both areas, we highlighted the Department of Education’s role and recommended that Education take actions to improve implementation by sharing information on states’ experiences in reducing testing expenses and by targeting information to states and districts in the best position to apply for additional flexibility. Education indicated that it agreed with our recommendations and will continue to pursue opportunities to improve the law’s implementation. Our work also highlighted weaknesses in Education’s efforts to improve the performance of disadvantaged students, specifically those efforts focused on improving the accountability of states and districts for student performance. As a result, the act included provisions that strengthened the accountability of states and districts for student performance. For example, the law required states and districts to assess and report on the proficiency level of all students, as well as specific subgroups of students (e.g., students with limited English proficiency or economically disadvantaged students) and delineates actions that will be taken for schools and districts not meeting proficiency levels.

**1.10. Increasing Accountability in Teacher Training Programs and Ensuring Highly Qualified Teachers:** We found that Department of Education information on teacher quality programs was not accurate. The recommendations in our report and testimony on improving the quality of teacher training programs were used to draft legislation that could strengthen training program reporting requirements by increasing the accuracy of information and enhancing the accountability for the quality of teacher training programs and the qualifications of teachers. We also reported that states did not have sufficient information to help them determine which teachers are highly qualified. We developed base line data on states’ efforts to help implement the highly qualified teacher provi-

sion in the No Child Left Behind Act. Education officials agreed to take steps to provide better information to states.

**1.11. Improving States’ Child Welfare Agency Performance:**

In a series of reports beginning in 2002, we have increased congressional and public awareness of improvements key to enhancing states’ child welfare agency performance and the oversight provided by the Department of Health and Human Services. Two reports focused on states’ implementation of significant child welfare legislation and the data that states collect to document children’s experiences after they come into contact with the system. We found that some data were not reliable and that key data were not being collected. A third report highlighted critical issues in recruiting and retaining highly qualified child welfare social workers. All three reports recommended changes in the department’s oversight to ensure that states receive appropriate assistance in overseeing and documenting the children’s experiences and that additional assistance is targeted to research on effective practices. The department agreed with most of our recommendations, stating that it has established a team to review data-related issues and begun exploring the effectiveness of child welfare training programs.

**1.12. Ensuring Adequate Lender Participation in the Student Loan Market:**

In September 2000, we reported that the Department of Education inconsistently applied a provision of the Higher Education Act, known as the 50 percent rule, to lenders entering trustee arrangements in the Federal Family Education Loan Program and that lenders were unclear as to how the provision should be applied. As a result of our recommendations, Education changed the definition of “eligible lender” in this program to clarify the application of the 50 percent rule to trustees. This change can facilitate participation by additional ineligible lenders, leading to a greater competition in the student loan market and potentially improved service and lower costs for student borrowers.

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

### **1.13. Helping Ensure a Federal Job Training System That Meets National and Local**

**Needs:** Our work on the new Workforce Investment Act (WIA), and its mandated one-stop system, has examined issues such as how well the system is serving the needs of special populations—including at-risk youth, older workers, and dislocated workers—and how well it achieves accountability. Members of the Congress have acknowledged our work for its timely and thorough approach and for positioning them for reauthorization discussions. Our efforts are also having an impact on the ability of state and local officials to serve eligible WIA clients. States are subject to financial penalties if they do not meet negotiated performance levels for WIA-funded programs, and we found that the Department of Labor and the states lacked the historical data needed to establish these performance levels. State officials believed they were set too high and that they did not take into account the proportion of the population that were hard to serve. We concluded that these levels could act as a disincentive for the programs to serve some eligible job seekers who needed assistance but who might keep the state from meeting their performance levels. Our recommendations that Labor expedite the release of guidance for renegotiating performance levels and that it take steps to reduce the disincentives for serving certain populations may help mitigate this concern. As a result, job seekers who are eligible for and may benefit from these services may be more likely to receive them. We also found that states did not have a ready mechanism to share the unemployment insurance data with other states—data needed to determine if their WIA-funded programs met their performance levels. Our recommendation that Labor fully fund a data clearinghouse system to facilitate unemployment insurance data-sharing among states may serve to facilitate data sharing and help to produce more accurate and complete performance data.

### **1.14. Highlighting the Role of Charitable Contributions in Aiding Victims of September**

**11:** We found that charitable aid made a major contribution to the nation's response to the September 11 attacks, despite very difficult circumstances. Through the work of charities, millions of people contributed to the recovery effort, raising an estimated \$2.7 billion. At the same time, we identified lessons learned that could improve future charitable responses in disasters, focusing needed attention on the importance of coordination among the key public and private organizations involved in aiding victims.

**1.15. Protecting Today's Workers:** We identified activities that could enhance the Department of Labor's enforcement of protections for today's workers, including many that are the nation's most vulnerable. In our reviews of Labor's Occupational Safety and Health Administration and the Wage and Hour Division, we found that improved data could help better target federal inspection resources and measure program outcomes. Focusing on workers under 18 years old and individuals working as day laborers (individuals who work for different employers every day and are paid in cash), we found that Labor could get better information about the dangers these workers face, enhance their education and outreach efforts, and ensure that these workers receive the protections they are afforded under federal law.

**1.16. Strengthening Labor's Management of the Special Minimum Wage Program:** Our review of this program, which, under certain circumstances, permits employers to pay workers with disabilities less than the minimum wage, resulted in substantial improvements in its management. Specifically, our recommendations resulted in Labor taking a number of actions to more accurately measure program participation and noncompliance by employers, better track and allocate staff resources, and more effectively prevent inappropriate payment of below minimum wages to workers with disabilities.

**1.17. Aiding Efforts to Build a Work-Based Welfare System:** Since the landmark 1996 welfare reform legislation, we have monitored implementation and outcomes at the state, local, and national levels, highlighting the progress made and challenges involved. In fiscal 2003, we recommended

ways to strengthen federal oversight of state and local welfare contracting and improve the coordination of welfare and workforce development programs. We also identified how welfare recipients with disabilities fared in the new welfare environment. The Senate and House authorizing committees have used our work in drafting reauthorization legislation for welfare reform.

### **1.18. Containing Federal Disability Insurance**

**Costs:** In addition to meeting medical eligibility criteria, to establish and maintain eligibility for disability insurance benefits, blind disability insurance beneficiaries must demonstrate that they are not earning above a certain amount—known as the Substantial Gainful Activity (SGA) level. Though the House and Senate had introduced legislation that would effectively eliminate the SGA level for the blind, we testified in March 2000 that, while eliminating the SGA would allow working beneficiaries to keep more of their benefits, it would increase disability insurance costs and fundamentally alter the purpose of the disability insurance program by removing the connection between benefit eligibility and the inability to work. Since the hearing, the Congress has retained the SGA level for the blind. Last year, we estimated a financial benefit for this work for fiscal years 2001 and 2002. For fiscal 2003, we estimate a \$600 million financial benefit, which is a cost avoidance based on estimates from the Social Security Administration's (SSA) Office of the Chief Actuary.

## *A Secure Retirement for Older Americans*

### **1.19. Protecting the Retirement Security of**

**Workers:** We alerted the Congress to potential dangers to the pensions of millions of American workers and retirees when we placed the Pension Benefit Guaranty Corporation's (PBGC) single-employer program on our high-risk list. Although not plagued by internal operational deficiencies, the pension insurance program's ability to insure workers' benefits is increasingly threatened by long term, structural weaknesses in the private-defined benefit system itself. These weaknesses could ultimately lead to losses exceeding PBGC's financial resources, resulting in the loss of billions of pension dollars by workers and an expensive taxpayer bailout. We also

noted the importance of a comprehensive approach to these risks to PBGC's insurance programs. In response to our findings, congressional leaders have said they will work closely with us to develop legislation that will address this serious pension crisis.

### **1.20. Recovering Supplemental Security**

**Income Overpayments:** In 1998, we identified weaknesses in the Social Security Administration's (SSA) ability to recover Supplemental Security Income (SSI) overpayments—the gap between what is collected and what is owed to the program—and found that this gap is growing. We recommended that SSA continue efforts to use additional debt collection tools to identify and collect the overpayments. SSA subsequently implemented an automated process to track overpayments. As a result, overpayments identified grew from \$13 million to \$42 million. We estimate that this automated process will ultimately generate about \$990 million in additional overpayment collections between 2000 and 2004. In addition, our testimony and briefings influenced the passage of legislation that gave SSA authority to recover SSI overpayments from any Title II social security benefits owed to former SSI recipients, even without their prior consent. Since this effort began in 2002, SSA reports it has collected \$9 million in overpayments. On the basis of these recoveries, we estimate that SSA will collect \$234 million in SSI overpayments for fiscal 2002 through fiscal 2006.

### **1.21. Helping the Congress Reform the Government Pension Offset Loophole:**

Individuals whose last day of state or local employment is covered by both Social Security and the state or local pension system can qualify for an exemption from the government pension offset. This offset prevents workers from receiving full spousal benefits in addition to a pension earned from government employment not covered by Social Security. We found that in two states, thousands of workers had transferred to positions covered by Social Security for short time periods—as little as 1 day—to qualify for the exemption. We estimated that these cases could increase long-term benefit payments from the Social Security Trust Fund by about \$450 million and urged the Congress to increase the time period required to qualify for the exemption. Consistent with our findings, the Social Security Protec-

tion Act of 2003 increased the time period required to qualify for the government pension offset exemption to 60 months.

**1.22. Improving Access to Voting and Polling Places:** In October 2001, we reported that 84 percent of all polling places had one or more potential impediments to access, primarily affecting individuals with mobility impairments. We also found that the types and arrangement of voting equipment used may also pose challenges for people with mobility, vision, or dexterity impairments. Subsequently, the Congress enacted the Help America Vote Act in October 2002, requiring that, by January 2006, polling places used in federal elections have a voting system that is accessible for individuals with a disability. Moreover, any voting system purchased on or after January 1, 2007, with funds from the act must be fully accessible. In addition, states and local governments may use a large portion of the \$3.9 billion authorized under the act. The General Services Administration (GSA) is authorized to make payments to eligible states for activities to improve the administration of elections, including improving the accessibility and quantity of polling places and modifying a polling site's path of travel, entrances, exits, or voting area.

**1.23. Improving Claims Processing for Veterans:** VA regional offices' inaccurate processing of veterans' compensation and disability claims has been the subject of longstanding concern. Our findings influenced VA's decision to pilot the use of specialized claims processing teams to improve the process and increase accuracy. These and other efforts can help ensure that the correct decision can be made the first time a claim is processed so that veterans can avoid unnecessary appeals or delays in receiving benefits.

## *An Effective System of Justice*

**1.24. Building a Knowledge Base for Gathering Law Enforcement Information through Alien Interviews:** In response to the September 11 terrorist attacks, the Department of Justice (DOJ) began interviewing aliens whose characteristics were similar to those responsible for the attacks. We found that although aliens were not coerced to participate in the interviews, they were concerned that failure to comply with the inter-

views would result in negative repercussions, such as a future denial for permanent residency. We reported that DOJ completed less than half the intended interviews and lacked complete information on the status of the interview project, in part because there were data problems with the interview list. We also reported that it was difficult to measure whether the project was successful in gathering intelligence and disrupting terrorism. Our recommendation for DOJ to conduct a formal review of the project and report on lessons learned is expected to contribute to a knowledge base that can inform future similar efforts.

**1.25. Ensuring Accurate Counts of Terrorist Convictions:** Our review of terrorism-related conviction statistics for fiscal 2002 found that at least 132 of 288 cases were misclassified as such, and that the Executive Office for U.S. Attorneys lacked sufficient management oversight and internal controls to ensure accuracy. Both DOJ and the Congress use these data to assess terrorism-related performance outcomes. In response to our report, DOJ has taken steps to better ensure the accuracy of these data.

**1.26. Improving the Integrity and Efficiency of Port Inspections:** Immigration inspectors at 166 land border ports of entry must facilitate the movement of almost 363 million people crossing the border, while intercepting those attempting to enter unlawfully. We identified several vulnerabilities in the integrity of the inspections process at 15 land border ports of entry. For example, inspectors did not always receive the training they needed and inspections were hampered by technology and equipment problems. Furthermore, there was no structure in place to support the analysis and use of intelligence information in the field, despite the importance of intelligence in the war against terrorism. We made recommendations aimed at improving inspector training and equipment and developing a program to facilitate the analysis and use of intelligence information in the field.

**1.27. Enhancing the Transformation of the Federal Bureau of Investigation (FBI):** Since September 11, 2001, the FBI has been reorganizing to better focus on counterterrorism and counterintelligence. In June 2003, we provided comprehensive testimony to the Congress on the progress the FBI has made and noted areas of concern that

should be addressed to achieve successful transformation. These areas include completing a strategic plan, developing a comprehensive human capital plan and a new performance management system, and ensuring that safeguards are in place for the protection of civil liberties as broadened investigative authorities are implemented. The Congress will periodically monitor these areas of concern as the FBI transformation proceeds.

**1.28. Enhancing the District of Columbia's (D.C.) Criminal Justice System Coordination:**

On March 30, 2001, we issued a report assessing the structure of D.C.'s criminal justice system. We concluded that the overall success of the system depends on effective coordination among the participating agencies. We also concluded that the Criminal Justice Coordinating Council (CJCC) had served as a useful mechanism for addressing systemwide coordination issues, although its success was hampered by several factors. On the basis of our recommendations addressing these factors, both the federal government and D.C. provided funding for the CJCC in fiscal 2003, and the CJCC submitted its first annual report to the Congress, the D.C. mayor, and the D.C. City Council. Also, according to the Executive Director, CJCC is currently working to become a clearinghouse for initiatives designed to improve any aspect of the D.C. criminal justice system.

## *The Promotion of Viable Communities*

**1.29. Improving Financial Accountability:** In reviewing the Small Business Administration's (SBA) loan asset sales program, we found errors that could have significantly affected the reported results in the budget and financial statements for fiscal 2000 and fiscal 2001. SBA incorrectly calculated the accounting losses on the loan sales and lacked reliable financial data to determine the overall financial impact of the sales. Because SBA did not analyze the effect of loan sales on its remaining portfolio, its reestimates of loan program costs for the budget and financial statements were unreliable. As a result of these errors, SBA's auditor withdrew its clean audit opinions for those years and issued disclaimers of opinion. The auditor also disclaimed an opinion on SBA's financial statements for 2002. These

errors and the lack of key analyses mean that congressional decision makers are not receiving accurate financial data to make informed decisions about SBA's budget and appropriations. SBA generally agreed with our findings and has been working to resolve the errors and improve its analyses.

**1.30. Improving SBA's Operations and Organizational Structure:**

Though SBA employs just over 4,000 people, it has over 100 field locations in every state and the U.S. territories. We found 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. In 2002, SBA presented to the Congress a 5-year transformation plan citing our findings as reasons why the transformation is important. In early 2003, SBA began implementing its transformation plan through field office pilots that intend to focus the district office mission on marketing and outreach to small businesses and centralize operations for loan processing and other loan-related activities.

**1.31. Strengthening Foreclosure Monitoring Efforts:**

In 2002, we found that the Department of Agriculture's (USDA) Rural Housing Service and the Federal Housing Administration (FHA) did not collect basic data on the overall time that it takes mortgage servicers and/or management and marketing contractors to sell foreclosed properties. Without such data, these agencies could not determine the performance of their servicers and/or contractors in managing the foreclosure process, which could result in higher costs and property deterioration. As we recommended, the Rural Housing Service implemented a computer system in June 2003 that allows the agency to determine the time that it takes servicers to sell foreclosed properties. We also recommended that FHA collect additional data on the time necessary to sell foreclosed properties, and FHA plans to collect this information early in 2004.

**1.32. Cutting FHA and VA Title Insurance Costs:**

In a 2002 report, we questioned the cost-effectiveness of FHA's and VA's approximately \$31.5 million in annual expenditures on new title insurance policies during the foreclosure process. We found that other organizations that foreclose on and sell properties, such as Fannie Mae and Freddie Mac, generally obtain title to such properties without incurring

the costs associated with purchasing new title policies. Consistent with our recommendation, FHA and VA have initiated reviews, which should be completed during fiscal 2004, to determine whether more cost-effective approaches can be implemented to establish title to foreclosed properties.

**1.33. Improving FHA Foreclosed Property Sale Processes:** In a 2002 report, we identified weaknesses in the FHA foreclosed property sale processes, which delayed critical property maintenance and potentially left FHA properties in disrepair and on the market for significant periods. We recommended that FHA streamline its property sale procedures, and FHA officials expect to determine the best means of implementing revised procedures by October 2004. By revising existing procedures, FHA could minimize its losses on foreclosed property sales and enhance the appearance of neighborhoods in which such properties are located.

**1.34. Enhancing SBA's Oversight of Lenders:** In reports and testimony over several years, we noted the lack of clarity in SBA's authority to take enforcement action against lenders should the need arise. In 2003, SBA submitted to its oversight committees proposed statutory changes that would give it authority to issue cease and desist orders, levy civil money penalties, and take other enforcement actions. We also provided technical comments on the proposed legislation.

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

**1.35. Contributing to the Debate on Healthy Forest Initiative:** The National Fire Plan is a long-term, multibillion-dollar initiative involving federal land management agencies, states, and local governments. Much of the plan is devoted to improving the health of national forests by reducing the buildup of forest fuels (e.g., brush, small trees, and other vegetation) that have accumulated over the past several decades. Controversy arose about whether the public's ability to appeal and litigate Forest Service fuels reduction decisions unduly delayed the agency's ability to carry out reduction activities in the national forests. The administration tried to address this situation by proposing the

enactment of the Healthy Forest Restoration Act of 2003. Among other things, the proposed legislation attempts to revise the appeals and litigation process or exempt certain fuels reduction activities from it. We provided timely, comprehensive data to assist the Congress in its debate on the act.

**1.36. Assisting the Congress on the Multibillion Dollar Everglades Restoration:** Restoring the Everglades will take billions of dollars, last over 50 years, and require many federal and nonfederal agencies to work together to achieve a healthy, restored ecosystem. In response to our reports, the Congress required the task force that administers the initiative to develop and periodically update a strategic plan and develop a conflict resolution process and land acquisition plan. The task force has since developed and updated the strategic plan and is finalizing the conflict resolution process and the land acquisition plan. In 2003, we made recommendations to the task force on how it can more effectively coordinate and prioritize scientific activities to support the restoration, made contributions to a congressional appropriation hearing on the subject, and deliberated with the task force on the science issues confronting the Everglades restoration.

**1.37. Influencing Legislation to Improve Security of Chemical Facilities:** Our 2003 report on the security of chemical facilities demonstrated the need for a comprehensive national chemical security strategy to ensure that the chemical industry has taken appropriate security measures. Across the nation, thousands of industrial facilities manufacture, use, or store hazardous chemicals in quantities that could potentially put large numbers of Americans at risk of injury or death in the event of a chemical release. Yet, despite all efforts since the events of September 11, 2001, to protect the nation from terrorism, our report concluded that the extent of security preparedness at U.S. chemical facilities is unknown. While some other critical infrastructures are required to assess their security vulnerabilities, no federal requirements are in place to require chemical facilities to assess their vulnerabilities and take steps to reduce them. Our work led to several Senate bills calling for increased security measures and assessments of vulnerabilities at chemical facilities nationwide.

### **1.38. Security Training for USDA Food**

**Inspection Personnel:** In 2003, we reported on USDA's efforts to secure the nation's food supply from deliberate contamination. We found that although USDA had issued security guidelines for food processors and placed its inspection personnel on heightened alert, the department had only provided security training to its field supervisory personnel. Because all of USDA's field inspection personnel are tasked with, among other things, advising food processors on security matters, we recommended that USDA provide training to all of its field personnel to enhance their awareness of and ability to discuss security measures with plant personnel. In response, USDA (1) issued a directive instructing field inspectors on security measures to be taken relative to elevated national security threat levels and (2) developed and provided a multiday antiterrorism training program for facilitators. USDA hopes to deliver and complete training for all its field personnel by the end of fiscal 2004.

### **1.39. Helping Achieve Savings on the Oregon Inlet Project:**

As a result of our recent work on the proposed Oregon Inlet, North Carolina, navigation project, the White House's Council on Environmental Quality announced an agreement among the Army Corps of Engineers and the Departments of the Interior and Commerce not to proceed with the project. The council cited our finding that the Corps' economic analysis was not reliable, in particular that the Corps had significantly overstated the benefits of the project, as a key factor in the agreement not to pursue the 30-year proposed project. The financial benefit from this decision is estimated to total \$93.7 million.

### **1.40. Superfund Cleanup Cost Recovery:**

Under the liability provisions of the Superfund hazardous waste cleanup program, parties responsible for contaminating a site must pay for its cleanup, or the Environmental Protection Agency (EPA) can conduct the cleanup and subsequently recover its costs from the parties. We found that EPA was not recovering billions of dollars in indirect costs, which are costs EPA prorates across all sites because they cannot be attributed to a particular site. In response to our recommendations, EPA adopted a new method to calculate its indirect costs. EPA estimated in 2003 that it would recover at least about \$100 million in additional indirect costs as a result of using the new rate from those cleanups that have

been completed, but whose cost recovery settlements have not been negotiated. In addition, EPA estimated that it will also recover about \$30 million more each year until the end of the program because of the new rate. This will result in a total of about \$210 million in recovered cost.

### **1.41. Better Compliance with Seafood Safety Regulations:**

We reported in 2001 that when Food and Drug Administration (FDA) inspectors identify serious violations at seafood processing firms, the agency does not issue warning letters in a timely manner. We reported that although FDA's regulatory procedures call for approval of warning letters within 15 days, on average 73 days elapsed between the receipt of the district offices' recommendations to issue a warning letter and issuance of the warning letters by headquarters. As a result, three-quarters of the warning letters in fiscal 1999 exceeded FDA's own prescribed time frames by 30 days or more. Consequently, we recommended that FDA issue warning letters within the required timeframes. FDA agreed with the recommendation and in 2003, said that, on average, it had reduced its review time for warning letters to about 20 days. Although this is 5 days short of the agency's 15-day approval policy, FDA's actions represent a step forward in ensuring better compliance with seafood safety regulations.

## *A Secure and Effective National Physical Infrastructure*

### **1.42. Improving Emergency Response and Disaster Assistance:**

We reviewed both the emergency response efforts that followed the September 11 terrorist attacks and the subsequent disaster assistance provided. We also continue to assist the September 11th Commission and other entities seeking to improve the nation's ability to respond to disasters. Our review of the disaster response efforts by the Federal Emergency Management Agency (FEMA) and others following the terrorist attacks recommended that FEMA establish an approach to deliver critical components of its public assistance program to avoid future delays and concerns about funding approaches. For example, we found that most of the \$15 billion in direct federal assistance provided to New York as a result of the

terrorist attacks has been designated and over half had been disbursed by June 2003; however, the total amount of federal assistance will never be known because the Internal Revenue Service cannot accurately track allowable tax benefits. In response to our recommendations, the Congress and cognizant agencies have undertaken specific steps to better coordinate response to disasters.

#### **1.43. Making Key Contributions to**

**Infrastructure Safety:** Drawing on an extensive body of issued and ongoing work on the safety of our nation's infrastructure, we made numerous recommendations to improve safety in aviation, highway, rail, and pipelines. For example, in response to our 1999 recommendation aimed at making airline inspections more systematic and structured, the Federal Aviation Administration (FAA) took steps to improve its inspection guidance, the quality of inspection data, and the use of these data in the identification of potential aviation safety risks. Our work also provided the backdrop for a congressional hearing on highway safety and was prominently cited by numerous Senators and other witnesses as relevant to key elements of the administration's proposal to reauthorize the surface transportation law. Specifically, our work will help determine how much flexibility states should have in spending federal safety funds, whether it is better to use penalties or incentives to get states to adopt key highway safety legislation, and how the Department of Transportation (DOT) and the Congress should oversee and hold states accountable for highway safety. In response to our recommendations concerning the setting of highway research agendas and evaluating outcomes, DOT revamped its entire highway research program to incorporate comments from stakeholders in deciding the direction of its research and to evaluate the outcomes of its research in a systematic matter. Finally, as a result of our past work on pipeline safety, DOT's Office of Budget and Program Performance agreed to more closely link its performance goals for pipeline safety to deaths and injuries associated with pipeline accidents.

#### **1.44. Evaluating the Efficiency and Financial Condition of the Nation's Airports and Airlines:**

We reported on a number of initiatives to address air traffic delays and congestion and relieve financial instability in the nation's airlines. As a result of airline financial problems—some of which

culminated in bankruptcies and major restructuring—from flight delays and congestion, the Congress determined that the nation must find ways to build runways faster to increase capacity in the national aviation system. The House used our 2003 study of runway development as a basis for addressing the challenges associated with runway construction, by including a provision increasing the efficiency of key processes in runway development in legislation reauthorizing FAA. Our analysis of aviation financial data—presented in a series of reports and testimonies in fiscal 2003—was a critical component of congressional deliberations on the nature and scope of development needs and how those needs could be financed. Both the House and Senate used our information and analysis of aviation financial data to help them develop FAA reauthorization legislation that authorizes \$15 billion for airport development over the next 4 years. FAA has also sought to help meet the anticipated growth in air travel by implementing a new, more flexible approach for air traffic management, known as free flight, to increase the capacity and efficiency of our nation's air space while helping to minimize delays. Responding to one of our recommendations from 2001, FAA has developed a national plan to improve free flight training outcomes and delivery methods, evaluate its potential for use with other air traffic control systems, and identify requirements and costs for its next phase. At the request of the Congress, we also evaluated the impact of new regulations governing the performance of airline computer reservation systems on the travel industry.

**1.45. Reforming the Postal Service:** The Congress took both interim and comprehensive actions to address key postal reform issues identified in our past work. First, the Congress passed legislation in April 2003 to reform the funding of benefits under the Civil Service Retirement System for employees of the Postal Service, reducing its pension liability from \$32 billion to about \$5.8 billion and providing some short-term financial relief. Second, the Postal Service has improved the content of its quarterly financial reports by providing greater detail related to changes in its current and projected financial condition. In addition, in response to our recommendations, the Postal Service took actions to improve the prevention of losses of postal assets, such as the \$6.3 million in cash and checks it lost in fiscal 2001, by improving its procedures and training for the security of cash and checks. Finally, the



House Government Reform Committee established a special panel on postal reform and oversight to work closely with the President's Commission on the Postal Service, which issued its report with recommendations for comprehensive postal reform in July 2003. The congressional oversight committees plan to use the Commission's report to develop comprehensive postal reform legislation and hold hearings in the fall of 2003.

**1.46. Contributing to the Debate on Spectrum Management and 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 2003, we recommended that certain federal agencies, in conjunction with other parties, develop a plan for establishing a commission with wide representation to determine whether overarching spectrum management reform is needed. In June 2003, President Bush signed an executive memorandum that created the Spectrum Policy Initiative, which includes the creation of a Federal Government Spectrum Task Force with widespread membership that will produce recommendations for improving spectrum management. We also helped the National Telecommunications and Information Administration consider alternative spectrum management approaches by providing the agency with information on the United Kingdom's incentive pricing system for the radio frequency spectrum. We also identified factors affecting the transition to digital television and the implications of this transition for spectrum management. In releasing this report, one Representative said that he would craft legislative proposals that contain the policy suggestions that we advanced to help government jumpstart the digital television transition to drive economic growth, innovation, and job creation.

**1.47. Making Key Contributions to Security:** We assisted and advised transportation officials and authorities as they continued to develop security strategies to address vulnerabilities in the wake of September 11. Drawing upon an extensive body of completed and ongoing work, we identified specific vulnerabilities and areas for improvement to protect aviation and surface transportation. For example, we informed the Congress of improvements needed in the Federal Air Marshal Service

and other programs and of implementation issues associated with security enhancements, such as a registered traveler program. Our work also alerted the Congress to ongoing security vulnerabilities in such areas as the transport of dangerous goods and air cargo and the certification of pilots. In association with the National Academy of Sciences, we also convened a panel of experts to provide input to our work on the shipment of hazardous materials by rail. Our efforts highlighted a need for better coordination of federal research into security vulnerabilities. In response to our finding that it had not fully coordinated its security vulnerabilities research with its key transportation security stakeholder, DOT's Research and Special Programs Administration agreed to hold bimonthly updates on the progress of each vulnerability assessment and to discuss program task methodologies and strategies. We also issued a comprehensive report on transit security that educated the Congress and others on the challenges facing federal, state, and local officials charged with the responsibility of securing the nation's mass transit systems. Our outreach work with state audit organizations identified federal actions needed to assist states and contributed to a guide to assist state officials and others charged with reviewing transportation security risks. In response to our recommendations, the Congress and cognizant agencies have undertaken specific steps to improve infrastructure security and improve the assessment of vulnerabilities.

**1.48. Encouraging and Helping Guide Agency Transformations:** We highlighted federal entities whose missions and ways of doing business require modernized approaches, among them the Postal Service, GSA, and the Coast Guard. In May 2003, we followed up earlier reporting with testimony on the key postal transformation issues that resulted in their high-risk designation in 2001; among congressional actions to deal with these, the House Committee on Government Reform established a special panel on postal reform and oversight to work with the President's Commission on the Postal Service on recommendations for comprehensive postal reform. In 2003, GSA real property received the high-risk designation; our reporting helped spur GSA's portfolio restructuring initiative, intended to realign its real property management with its mission of providing quality space and services to agencies at a cost competitive with the private sector. GSA planned to accomplish this by

improving its real-time data on the financial and physical condition of federal properties and either enhancing the use of its buildings or disposing of them, potentially avoiding substantial costs. We also reported this year on the Coast Guard's ability to effectively carry out critical elements of its mission, including its homeland security responsibilities. We recommended that the Coast Guard develop a blueprint for targeting its resources to its various mission responsibilities and a better reporting mechanism for informing the Congress on its effectiveness. Our recommendations led to legislation requiring better reporting by the Coast Guard and laid the foundation for key revisions the agency intended to make to its strategic plan.

#### **1.49. Updating the Consumer Price Index**

**(CPI):** In October 1997, we recommended that the Commissioner, Bureau of Labor Statistics, update the expenditure weights of its market basket of goods and services more frequently to make it timely and more representative of consumer expenditures. In December 1998, the Bureau announced that it would update expenditure weights every 2 years beginning in 2002, and the CPI for January

2002 reflected the new weights. The Bureau's adjustments have resulted in (1) lower federal expenditures on programs like Social Security that use the CPI to calculate benefits and (2) increased federal revenues associated with lower growth in personal exemptions on federal income taxes. The amount of this financial benefit is based on the Congressional Budget Office's projections of the impact of the CPI update for fiscal 2003 through fiscal 2006 converted to its net present value.

#### **1.50. Reducing the Cost of Federal Housing**

**Programs:** In a September 1999 report on the Department of Housing and Urban Development's (HUD) fiscal 2000 budget request, we determined that the potential existed for HUD to better manage unexpended balances and for some unobligated funding to be used to meet other needs. We recommended that HUD review its unexpended balances to ensure the expeditious obligation and expenditure of these funds. In response to our recommendation, HUD instituted a review of unexpended balances in all of its programs and recaptured billions of dollars from its fiscal 2001 unexpended balances.

## 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*

#### **2.1. Improving the Reliability of the Government's Information on Alien Addresses:**

Following the September 11 terrorist attacks, the government was able to locate less than half of the aliens it sought to interview about their knowledge of terrorist activities. The government's efforts were hampered by unreliable address information on aliens. The fact that the Immigration and Naturalization Service had not publicized or enforced the requirement for aliens to submit change of address notifications and had not consistently updated information in its automated databases contributed to the unreliability of the information. Because it is vitally important for law enforcement to be able to find aliens who pose a national security threat or who can help with anti-terrorism efforts, we made recommendations for improving the nation's alien address information system. Implementing these recommendations should produce better and more complete data on alien addresses and assist the government in combating terrorism.

#### **2.2. Increasing Government and Private Sector Critical Infrastructure Protection Efforts:**

In numerous reports and testimonies beginning in April 2001, we assessed the progress of federal agencies and private infrastructure sectors in implementing the activities required and suggested by federal critical infrastructure protection policy. In early 2003, we reported limited progress by key agencies, including EPA, the Department of Commerce, the Department of Energy (DOE), and the Department of Health and Human Services, in identifying their national critical cyber and other assets and determining the operational dependencies of these assets on other public- and private-



Source: See Image Sources.

tor assets. We also reported challenges that hinder the sharing of intelligence and incident information among infrastructure sectors and the federal government, as identified by key industry sectors, including information technology, telecommunications, energy, electricity, water supply, and financial services. These issues are important considerations for the Department of Homeland Security (DHS), which now incorporates key federal critical infrastructure protection organizations and responsibilities, including the development of a comprehensive national plan.

#### **2.3. Improving Congressional Oversight of Federal Information Security:**

Since 1996, we have reported that poor information security in the federal government is a widespread problem with potentially devastating consequences. In May 2002, we reported that the Congress was not receiving the information it needed to oversee agencies' efforts to correct their identified information security weaknesses and that an agency's Office of Inspector General (IG) should assess its agency's corrective action plans as part of its statutory annual independent evaluation of its agency's information security programs. In response, the Office of Management and Budget (OMB) authorized agencies to release information from their corrective action plans to the Congress beginning in October 2002 and requested that IGs verify that such plans identify all known security weaknesses. Our analyses of these plans and the related IG reports now assist the Congress

in assessing both agency progress and the completeness of their efforts to correct their information security weaknesses.

**2.4. Upgrading U.S. Export Controls on Sensitive Technologies:** Our many reviews of U.S. export control laws and programs have contributed to the congressional debate about enhancing the current system and preventing the proliferation of sensitive technologies to terrorists or states supporting them. Our latest report examined the contribution of four key multilateral export control regimes to the goal of nonproliferation of weapons of mass destruction. We reported that export control regimes have had some noteworthy successes, but the regimes' information-sharing practices could be improved to make the regimes more relevant in today's global economy. This report, as well as our other reports and testimonies on this issue, has informed the Congress about the weaknesses of the process used to control sensitive technology exports and the effect of proposed changes to the Export Administration Act on the delicate balance between protecting national security and promoting U.S. economic interests.

**2.5. Strengthening Nuclear Nonproliferation:** Our 2002 report on U.S. efforts to help other countries combat nuclear smuggling identified several needed improvements in the program, including a full accounting of the radiation detection equipment in each country receiving U.S. assistance; assurances from countries receiving U.S. assistance that information about nuclear materials detected by U.S.-supplied equipment would be shared with U.S. agencies on a timely basis; and consolidation of all Department of State border security and nuclear smuggling efforts under one program office. Subsequently, in 2003, officials at DOE and State said that a comprehensive list of equipment had been completed and shared among all appropriate U.S. agencies; DOE said that all agreements with foreign countries receiving U.S. nonproliferation assistance now include a provision requiring that data on interdictions and detections be provided directly to DOE; and the program manager of State's Office of Export Control, Cooperation, and Sanctions said that the major activities related to border detection equipment within the department had been consolidated within his office as we had recommended.

**2.6. Helping Improve Security over Radioactive Sealed Sources:** There is a potential, serious security risk in devices known as "radioactive sealed sources." These devices, which contain plutonium-239, are used for research by universities scattered throughout the United States and in some cases are poorly secured. If the devices were to fall into the hands of terrorists, they could be used to make potentially dangerous radiological weapons, commonly called "dirty bombs," or even crude nuclear bombs. As a result of our 2003 report on these domestic sources, DOE is taking action to recover and securely store the devices. Our separate report on foreign sources also was helpful. At the request of DOE officials, we shared information with DOE on the information we collected from over 30 countries in every region of the world regarding the security and control of radioactive sealed sources in those countries. According to DOE, our survey results are being used in two ways. First, DOE is comparing each country's sealed source inventory data, as reported in the survey, to data that it has collected through other means to verify accuracy and identify differences. Second, DOE is using the survey results to help establish funding priorities for certain countries.

**2.7. Highlighting Fraud Vulnerabilities as Threats to Homeland Security:** In a series of security tests performed over the last 3 years that revealed security weaknesses at federal buildings and other facilities, airports, and the nation's borders, we created fictitious and counterfeit identification documents, such as driver's licenses, birth certificates, and Social Security cards using inexpensive software and hardware readily available to any purchaser. We demonstrated that (1) government officials generally did not recognize the documents as counterfeits, (2) some government officials failed to follow security procedures and were not alert to the possibility of identity fraud, and (3) identity verification procedures are inadequate. Our investigations revealed that homeland security is vulnerable to identity fraud and that individuals who intend to cause harm could easily exploit these vulnerabilities, as well as perpetrate fraud in voting, obtaining credit and federal benefits, and in many other areas.

**2.8. Identified Weaknesses in Screening Entrants into the United States:** The Senate Finance Committee asked us to test whether U.S. officials would detect counterfeit documents used

by U.S. citizens to enter the United States from Canada, Mexico, and a Caribbean country. We used off-the-shelf computer graphic software to create counterfeit driver's licenses and birth certificates to support fictitious identities. Using the fictitious names and counterfeit documentation, we entered the United States from Canada, Mexico, and Jamaica through ports of entry in Washington, California, and Florida. U.S. immigration and customs officials never questioned the authenticity of the counterfeit documents, and the agents encountered no difficulty in entering the country using them. After completing our work, we briefed officials of the U.S. Customs Service and DOJ—including DOJ's Immigration and Naturalization Service.

**2.9. Helping the Congress Create DHS:** With the testimonies we gave, we were able to identify major issues that the Congress reviewed in its deliberations in consideration of creating a new cabinet department. The result helped the passage of the Homeland Security Act of 2002. For example, we identified (1) the need for reorganization and the principles and criteria to help evaluate what agencies should be included in or left out of the new department and (2) the transition, cost, and implementation challenges of the new department.

## *Ensure Military Capabilities and Readiness*

**2.10. Key Assistance to the Congress Regarding the Defense Transformation Act:** In April 2003, the Department of Defense (DOD) submitted to the Congress a proposed Defense Transformation for the 21<sup>st</sup> Century Act. DOD's proposal envisioned far reaching changes in its authority to manage civilian and military personnel and major systems acquisitions and DOD's organizational structure, and additional changes in installations and funds transfers. We provided key assistance by testifying and briefing several congressional committees on issues related to DOD's proposal, which enabled them to conduct better informed deliberations on this complex proposal in time for consideration during the defense authorization process.

### **2.11. Improving Department of Defense Force Protection Efforts at Domestic and Overseas Ports:**

In 2003, we reported on the need to improve force protection for DOD deployments through domestic seaports and the service's antiterrorism efforts at installations. We recommended strengthening domestic seaport security, improving DOD's oversight and execution of force protection measures at domestic ports, and establishing a results-oriented management framework. We also provided the Congress and DOD with preliminary observations on force protection measures being applied by the U.S. European Command and Southern Command at commercial seaports overseas, laying the foundation for recommendations aimed at improving oversight of force protection measures for in-transit forces worldwide, host nation support to U.S. forces, and the reduction of specific vulnerabilities. On the basis of our prior analysis, the 2003 Defense Authorization Act required that DOD develop a comprehensive plan to improve the preparedness of military installations for terrorist attacks involving the use of weapons of mass destruction and that we assess that plan.

### **2.12. Sharpened Congressional Focus on Risks Associated with F/A-22 Fighter Program:**

In a March 2003 congressionally mandated report, we recommended limiting aircraft production on the Air Force's F/A-22 aircraft program until operational testing is completed to minimize the risks of producing large quantities of aircraft that may require costly modifications. We reported that development testing had been delayed primarily due to software integration, which resulted in software instability problems. Our analysis helped the House Authorization Committee include language in the Fiscal Year 2004 Defense Authorization Act that fences \$136 million in procurement funding for F/A-22 aircraft until DOD certifies that the latest software version installed in the F/A-22 performs for at least 20 hours without incurring an instability event. The Senate Authorization Committee, citing similar rationale, recommended reducing the F/A-22 program's fiscal 2004 procurement request by \$217 million and further recommended reducing the number of aircraft procured in fiscal 2004 from 22 to 20 aircraft.

**2.13. Reducing Total Ownership Costs of DOD's Weapons Programs:** In February 2003, we reported that DOD asked for about \$185 billion to develop, procure, operate, and maintain its weapon systems (total ownership costs)—an increase of 18 percent since 2001. The high cost of maintaining systems has limited DOD's ability to modernize and invest in new weapons. We found that even though DOD has implemented several initiatives to reduce total ownership costs, these steps do not incorporate many of the practices used by commercial companies during requirements determination, product development, and fielding. As a result of our recommendations, DOD revised its acquisition policy in May 2003 to include a requirement to establish an estimate of system reliability based on demonstrated reliability rates in order to proceed with development beyond the design readiness review. Consequently, DOD should be better able to control the continuous growth in total ownership costs.

**2.14. Improving the Army's Management of Future Combat Systems Development:** In 2003, we reviewed the Army's Future Combat Systems (FCS) program, which is a major Army transformational effort, comprised of 18 networked, warfighting systems that are intended to be more lethal, survivable, deployable, and sustainable than existing heavy combat systems. The Army has allocated about \$22 billion for the FCS program during fiscal 2004 through fiscal 2009 and several billions more for non-FCS programs that the FCS will need to become fully capable. We briefed congressional and high-level Army staff on our observations and concerns that system of systems like FCS poses challenges for the acquisition process in terms of analyzing alternatives, estimating and tracking costs, and conducting oversight. We also identified several ways to facilitate the realization of FCS capabilities without taking undue risks. Subsequently, the Army took a number of actions that address these and other risks that, if successfully implemented, should improve management of and potentially reduce costs in the multibillion dollar FCS program.

**2.15. Making Funds Available for Lighter-Weight Weapons Systems:** In May 2001, we reported that the Army's efforts to transform itself into a light-weight combat force faced funding challenges partly because of funds required to develop and field test the Crusader artillery system. The fol-

lowing year we reported that (1) the Army's efforts to reduce the Crusader's size and weight to make it more deployable would likely result in only marginal improvements and (2) its plans to field test during the same year the Future Combat Systems—a lighter-weight weapons component intended to replace the Crusader—would result in large expenditures for duplicative systems designed to fulfill the same missions. In May 2002, the Secretary of Defense announced the termination of the Army's Crusader program. During the period from fiscal 2003 to fiscal 2007, the termination of the Crusader program will make available funds for other programs, resulting in about \$4 billion in costs avoided.

**2.16. Assessing the Risk of Major Weapon System Acquisitions:** In May 2003, we issued a unique report that provides a snapshot of program performance and risk for 26 major DOD weapon systems. Each individual assessment is summarized in an easy to read, visually descriptive 2-page format that provides a fact-based analysis of each program's cost, schedule, and development progress in relation to best practices. These assessments provide decision makers with a means to quickly gauge the progress of individual programs and offer the opportunity for action when a program's projected attainment of knowledge diverges from the best practice. This report is being used extensively by the Congress, DOD, and the defense industry. In addition, several countries are planning to replicate our approach into their own defense reviews.

**2.17. Improving Outcomes of DOD Weapon System Programs:** Our work on major weapons systems under development helped focus the attention of the Congress on the importance of following an effective knowledge-based acquisition approach. We found, for example, that weapons system developers have often failed to address spectrum supportability needs during the early stages of acquisition and, as a result, some programs experience significant delays and reduced operational capabilities. Similarly, we found that the Joint Tactical Radio System and FCS programs had not acquired sufficient knowledge during the early stages of acquisition on several key aspects of product development, such as technology maturity and requirements determination, which could affect a successful outcome. As a result of our work, Senate and House versions of the Fiscal Year 2004 Defense Authorization Act contain provisions to strengthen

both the enforcement of spectrum supportability in weapon system acquisitions and the implementation of the Joint Tactical Radio System and FCS Programs.

**2.18. Improved Safeguards and Security in Nuclear Weapons Program:** Over the past decade, others and we have raised concerns about the adequacy of security at nuclear weapons facilities within DOE's National Nuclear Security Administration (NNSA). We addressed many of these matters in its 2003 report on the subject, leading to several NNSA improvements. In response to our recommendation aimed at overcoming ill-defined roles and some attendant confusion in NNSA site offices concerning safeguards and security matters, NNSA officials agreed to formally establish safeguards and security responsibilities, and did so by issuing its Safeguards and Security Functions, Responsibilities, and Authorities manual. Responding to our concerns about the adequacy of contractors' analyses underlying their action plans to address identified safeguards and security weaknesses, NNSA issued guidance to contractors designed to strengthen those analyses. And finally, to address shortfalls that we identified in staffing numbers and expertise in offices overseeing contractor safeguards and security, NNSA announced that it would assign additional federal and contractor security experts to expedite action on security issues at its national laboratories. It also announced the establishment of a panel to develop recommendations for recruiting and retaining sufficient security experts to effectively oversee safeguards and security in the NNSA complex.

**2.19. Improving Maintenance of DOD's Deteriorated Facilities:** Contributing to the debate on how to improve the condition of DOD facilities, we issued two reports during fiscal 2003 on the funding and condition of the active services' and reserve components' facilities. We found that funding for facility maintenance and recapitalization has been inadequate, resulting in deteriorated facilities that negatively affect the quality of life for military and civilian personnel and, in some cases, hindered the performance of their mission. We recommended that the services and reserve components periodically review and reevaluate the priorities to sustain and improve the condition of facilities. DOD agreed with our recommendations and the House Committee on Armed Services

directed the Secretary of Defense to report on how the department intends to address these issues by December 2003.

**2.20. Assisting Congressional Decisions on Funding for Military Needs:** In fiscal 2003, the Congress provided DOD with \$365 billion for its annual appropriation and an additional \$76 billion for the war on terrorism, including military operations in Iraq. To support the Congress in determining DOD's funding needs, we reviewed the reasonableness of DOD's fiscal 2003 budget request, its use of budgeted funds in prior years, and the status of its war on terrorism expenditures. We also reviewed DOD's ability to manage and track the use of obligated funds. We identified millions of dollars in potential costs avoided and opportunities for DOD to improve its internal oversight of fund use and tracking. The information we provided contributed to congressional decisions to adjust DOD's fiscal 2003 budget request by almost \$1.5 billion. Our work also prompted DOD to reevaluate certain funding requirements, adjust financial records, and take other actions that are expected to result in \$119 million in cost reductions.

**2.21. Evaluating Federal Preparedness for Homeland Security Missions:** We found that the threat of terrorism has altered some military missions and that DOD has established new organizational structures, including U.S. Northern Command, and developed a new campaign plan for domestic missions. At the same time, DOD has not reevaluated the structure of U.S. forces to ensure they are well structured for these missions, has relied on forces that were not well matched to their domestic missions, and has risked erosion of military skills because the missions offer limited opportunities to practice the varied skills needed for combat. Consequently, we recommended that DOD evaluate the need to restructure forces to better match them to their domestic missions to ensure that the missions could be effectively carried out while maintaining military readiness of participating forces.

**2.22. Contributing to the Debate Over DOD's Proposal to Revamp the Civilian Personnel System:** We issued a report and testified four times before House and Senate committees on DOD's need to improve its human capital strategic plan-

ning. For example, we recommended that DOD align its strategic human capital plan with its overarching mission and that the plan should include results-oriented performance measures and focus on future workforce requirements. Citing our report's conclusions and recommendations, some members of the Congress, during hearings on DOD's proposal to revamp its civilian personnel system, expressed concern about DOD's readiness to move forward on its proposal. On the basis of our report and testimonies, the Senate Committee on Governmental Affairs drafted legislation that scaled back DOD's proposal and added numerous safeguards and protections for DOD's civilian federal employees.

**2.23. Estimating the Exposure of U.S. Troops to Chemical Plume During the Gulf War:** Congressional questions about extending benefits to U.S. troops who were not directly exposed to chemical warfare agents led to our examining the basis of DOD conclusions regarding the extent of exposure to chemical plume during the Gulf War. We found that DOD and the Central Intelligence Agency used flawed methodology and unreliable and inaccurate information to determine that U.S. troops' exposure was minimal. Given the uncertainties in the modeling data and who was exposed, we recommended that the Secretary of Veterans Affairs presume exposure, since many more veterans could have been exposed than first estimated. As a result of our testimony, a Veterans Affairs Research Advisory Committee on Gulf War Veterans Illnesses agreed that the Secretary of Veterans Affairs should implement our recommendation to give presumptive benefits to all Gulf War veterans.

**2.24. Controlling Personnel Costs and Minimizing Ownership Costs of Navy Ships:** We identified several actions the Navy should take to optimize ship crew sizes. We concluded that the Navy could significantly lower personnel costs by using a human systems integration approach at the earliest stages of a ship's design and recommended that the Navy (1) require that ship programs use human systems integration to establish crew size goals and help achieve them, (2) clearly define the human systems integration certification standards for new ships, and (3) formally establish a policy evaluation function to examine and facilitate the adoption of cost-saving technologies and best practices across Navy systems. DOD agreed and indi-

cated that actions were under way or that they planned to implement them. These steps should result in better ship designs and reduce the total ownership costs of the fleet by billions of dollars.

**2.25. Improving Military Readiness by Overcoming Spare Parts Shortages:** While DOD has made some progress in applying business practices to improve its logistics support, long-standing problems continue with regard to the acquisition, management, and distribution of spare parts—an area that we have designated as high risk since 1990. We made recommendations aimed at ensuring there is a clear focus on overcoming shortages of critical spare parts in DOD's strategic plans, initiatives, and funding priorities. As part of its recent logistics transformation effort, the Office of the Secretary of Defense promulgated strategic plans to guide the Defense Logistics Agency's and the services' efforts for improving logistical support to the war fighter. In turn, the Defense Logistics Agency and the services have started adopting a variety of best business practices, such as setting performance goals and using performance based contracts, to provide needed supply support to their customers. According to the Deputy Under Secretary for Logistics and Materiel Readiness, DOD is transforming logistics by measuring performance and balancing requirements, investments, and risk using a balanced scorecard.

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

**2.26. Strengthening the U.S. Visa Process as an Antiterrorism Tool:** Our analysis of the U.S. visa-issuing process showed that the Department of State's visa operations prior to September 11, were focused on screening applicants to determine whether they intended to work or reside illegally in the United States, rather than on screening for potential terrorists. We recommended that State should develop clear and comprehensive policies for agencies on how consular officers should use the visa process as a screen against potential terrorists and that State should reassess its consular staffing requirements and revamp its training program. State indicated that it would use our recommendations as a roadmap for improvement in consular sections around the world. State reports that it has



already taken steps to adjust its policies and regulations concerning the screening of visa applicants and its staffing and training for consular officers.

### **2.27. Assessing the Conditions of Overseas**

**Diplomatic Facilities:** We evaluated the condition of nearly 250 overseas diplomatic facilities with respect to physical security, maintenance, and office space. Our analysis demonstrated that most primary office buildings were in poor condition and suffered serious security vulnerabilities. For example, only 12 posts had a primary office building that met all five of the Department of State's security standards, and 232 posts did not meet one or more of State's key security standards. Consequently, these posts may be more vulnerable to terrorist attacks. We concluded that State had taken positive steps to improve facility conditions by replacing existing buildings with new and secure embassy compounds and recommended in congressional testimony that such a large-scale building program receive extensive oversight due to the cost and importance of the program. The Senate Committee on Foreign Relations noted that our analysis on embassy security was an indispensable resource in the effort to ensure the safety of U.S. government personnel overseas.

**2.28. Overseeing the Rebuilding of Iraq:** In May 2003, we reported that our many prior reviews showed that rebuilding countries is both difficult and costly and that congressional oversight is extremely important. According to our work, the rebuilding of Iraq should include oversight of U.S. efforts to provide security, reconstruct basic infrastructure, create accountable government institutions, foster conditions for democracy, and build a free market economy. Based in part on our report, congressional committees said that their oversight of Iraq's reconstruction is a priority and requested our help in this effort.

**2.29. Recovering the Former Iraqi Regime's Illicit Assets:** In May 2002, we reported that the former Iraqi regime had illegally obtained \$6.6 billion by smuggling oil and arranging kickbacks on oil and commodity contracts related to the United Nations's Oil for Food program. Our work has been cited more than 700 times by the press, other studies, and reports, particularly in considering the potential amount that could be recovered from Saddam Hussein's illicit activities. In March 2003, the

Department of the Treasury announced a worldwide effort to recover the former regime's assets and cited our report as part of the basis for this action.

### **2.30. Improving the Delivery of Disaster**

**Recovery Assistance:** We are concurrently monitoring and evaluating \$159 million in disaster recovery funding to assist El Salvador in recovering from two severe earthquakes that struck in early 2001. Our monitoring effort has led to improvements in key aspects of the U.S. Agency for International Development's (USAID) program. In response to our recommendations, USAID improved its methodology for sampling and inspecting completed houses and took action to help low-income housing beneficiaries obtain water and electricity. The May 2003 report further recommended that USAID establish benchmarks and milestones to accelerate the pace of housing construction and consider reducing the number of houses to be built by the Salvadoran government housing authority if it is unable to meet its construction schedule. USAID agreed with these recommendations and is currently working to address them.

### **2.31. Assessing United Nations's Renovation Plans and the Potential U.S. Financial**

**Impact:** We reported on the United Nations's efforts to renovate its headquarters and calculated the potential financial impact on the United States should it provide a \$1.2 billion interest-free loan to fund this project. We found that the United Nations followed a reasonable process consistent with leading practices in developing the headquarters renovation plan—the first of a five-phase process. The United Nations agreed with our recommendation that its oversight bodies be given the resources necessary to conduct effective oversight of the project. We are the only entity that has provided an estimate to the federal government of the financial impact of the United Nations's renovation, which includes providing the \$1.2 billion interest-free loan and repaying a share of the loan—estimated at over \$700 million—as a member of the United Nations.

### **2.32. Assessing the United Nations Educational, Scientific, and Cultural Organization's (UNESCO) Reform Efforts Since U.S. Departure:**

We reported on UNESCO's efforts to reform its management practices to help shape U.S.-planned reentry into the organization in

2003. The United States left the organization in 1984, contending that it was poorly managed. Because the executive branch is interested in having the United States rejoin the organization, we reviewed the costs of doing so as well as UNESCO's reform actions. We found that while UNESCO has tried several times to restructure its management practices, these reforms are in their early phases, are not yet complete, and will succeed only with the sustained efforts of management and member states.

### **2.33. Filling Major Gaps in the Visa**

**Revocation Process:** We assessed the effectiveness of the visa revocation process, specifically for individuals whose visas were revoked for terrorism concerns. We concluded that the U.S. government lacked comprehensive policies to guide the process and that there were major gaps in the policies' implementation. We also concluded that neither the Immigration and Naturalization Service nor the FBI were routinely investigating or attempting to locate individuals whose visas were revoked for terrorism concerns. DHS agreed with our recommendation that the visa revocation process should be strengthened as an antiterrorism tool. And, in testimony following the issuance of our report, the Department of State said that it had already improved its coordination with DHS and its information-sharing on visa revocations.

### **2.34. Assessing the U.S. Government's Staffing**

**Needs at Embassies and Consulates:** Our work on rightsizing the U.S. government's overseas staffing has helped push forward the rightsizing initiative included in the President's Management Agenda. We developed a framework that calls for consideration of security, mission, and costs when determining the appropriate size of the overseas workforce. OMB supported the framework and established an interagency working group to help structure and guide the rightsizing process. State agreed that our framework provided a good foundation for improving the overseas staffing process. In April 2003, we recommended that State develop formal, standard, and comprehensive guidance on developing staffing projections for new embassy construction projects, so that it constructs buildings that are the right size. In June 2003, State issued such a guide, which specifically requires that posts use our rightsizing framework questionnaire when establishing projections. We also found that greater

staffing of a renovated, \$80 million facility in Frankfurt, Germany—which will be the largest U.S. overseas diplomatic post—would optimize its use and improve security for personnel relocated from other embassies in Europe and other regions that have serious security vulnerabilities. In response to our analyses, State has restarted a process to identify staff from posts outside Germany who could be relocated to the Frankfurt facility.

### **2.35. Maximizing the Impact of U.S.**

**International Broadcasting:** Our July 2003 report on U.S. international broadcasting led the Broadcasting Board of Governors to fundamentally revise its 5-year strategic plan to focus on areas of strategic importance in the war on terrorism. In addition, the board is revising its plan to incorporate more meaningful performance indicators as suggested in our report. For example, audience size measures will now be included in the plan as a key performance measure. In line with another report recommendation, the Board is conducting an in-depth review of the need for and utility of integrating overlapping language services (a 55-percent overlap currently exists between Voice of America and other broadcast language services) and expects to include the results of this review in its fiscal 2005 budget submission. Such changes will allow the board and external groups such as OMB and the Congress to allocate resources more effectively.

### **2.36. Using Private Sector Techniques to**

**Improve U.S. Public Diplomacy:** Nearly 2 years after the terrorist attacks of September 11, 2001, the Department of State still lacked an overall strategy to integrate its diverse public diplomacy activities toward improving the image of the United States overseas. In August 2003, State began implementing our recommendation that it develop such a strategy and that it consider the techniques of private sector public relations firms in integrating all of State's public diplomacy efforts and directing them toward achieving common and measurable objectives. To assist State, we gave officials a list of high-level private sector contacts that we consulted in the course of our work. State plans to collaborate with these and other private sector leaders in developing its strategy and improving its methods of measuring the effectiveness of its programs. State also established a new office of strategic planning for public diplomacy activities to support this effort.

**2.37. Improved Accountability Over U.S. Funds Provided to Two Micronesian Nations:**

We found that the United States, the Federated States of Micronesia, and the Republic of the Marshall Islands had taken little action to ensure accountability over and the effectiveness of U.S. funds—about \$1.6 billion for fiscal 1987 through fiscal 1998—provided to the two Pacific island nations via a Compact of Free Association. The Department of State Compact Negotiator incorporated several of our recommendations into the amended compacts during negotiations with the two Pacific island nations that were completed in the spring of 2003. For example, U.S. funds will be provided through specific grants that are subject to grant terms and conditions, capital (public infrastructure) projects will be defined in detail and funds made available for maintaining these projects, and annual reporting and consulting requirements will be expanded.

**2.38. Increasing Knowledge of Acquired Immune Deficiency Syndrome (AIDS) in Africa and Other Parts of the World:**

In a series of reports since 2001, we reported on the impact and challenges of measuring efforts to control the spread of AIDS. As a result, we recommended (1) that behavior surveys be developed and administered to the United Nations peacekeeping contingents to improve available data related to transmitting or contracting sexually transmitted infections, including AIDS; (2) that efforts be made to integrate AIDS into the work of the United Nations and to hold country level staff accountable for participation in efforts to help host countries combat AIDS; and (3) that all missions and regional offices in USAID, which conducts AIDS prevention activities, select standard indicators to measure the progress of AIDS programs and gather indicators that are based on performance data. In response, both the United Nations and USAID took the necessary steps to address our recommendations.

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

**2.39. Reassessing the Advisory Committee System:**

As a result of our assessment of how the private sector advisory committee system on U.S. trade policy could make its consultation process with the government more meaningful and reliable, the United States Trade Representative and other managing agencies have changed their approach to this process. The United States Trade Representative has taken a series of steps to improve the timeliness of consultations, such as instituting monthly conference calls with committee chairs and developing a secure Web site to disseminate materials before meetings. In addition, USDA and the Department of Commerce have made efforts to improve the quality of the committee meetings and fill gaps in committee representation. Moreover, the Department of Commerce has proposed a reorganization of its 21 committees into 15 committees that more closely align the system's structure and composition with the current U.S. economy and negotiating demands. Streamlining the system should also better match agency resources to the management tasks involved.

**2.40. Making Trade Agreements More Accessible:**

As part of our ongoing work for the Congress on China trade issues, we created an electronic database to analyze China's World Trade Organization accession agreement. We issued the searchable database to provide a tool for policymakers, analysts, lawyers, and businessmen interested in examining the numerous commitments China undertook to join the World Trade Organization. Given the complexity and length of the agreement, the database can help them both identify the opportunities that the agreement creates and monitor China's implementation.

**2.41. Future Implications of Public Accounting Firm Consolidation Are Unknown:**

The audit market is in the midst of unprecedented change, including increased concentration among the largest firms. We identified a number of issues that warrant ongoing attention, including (1) monitoring whether firms will begin

to exercise significant market power in the future through, for example, higher fees; (2) studying whether anything should be done to prevent further consolidation among firms, such as some form of government intervention; (3) continuing to target sanctions by balancing the individuals' and firms' responsibilities while managing the potential moral hazard created by firms' believing they are "too few to fail;" (4) monitoring the effect of concentration on auditor choice in particularly concentrated industries; and (5) evaluating whether addressing existing barriers to entry into the large public company audit market, such as capital formation, could prevent further consolidation among the existing four large public accounting firms.

**2.42. Blocking Internet Gambling:** We provided a comprehensive overview of the efforts under way by credit card companies and banks to block the use of credit cards to pay for illegal Internet gambling transactions. Our work was used in the debate over legislation to ban the use of credit cards and other payment mechanisms to pay for illegal Internet gambling transactions. The House passed the bill in June 2003.

**2.43. Full Financial Markets Recovery from Terrorist Attacks:** In reports issued in 2003, we described how financial market participants and regulators responded to the September 11 terrorist attacks. We found many factors that caused the longest closure of the U.S. stock markets since the 1930s, including the need for many market participants to reestablish operations and communications capabilities at new locations outside the affected area. We reported that regulators had begun efforts to ensure that market participants involved in the transfer of funds and securities take steps to ensure that they can recover their operations after a disaster. However, our reports recommended that regulators also develop recovery strategies and sound business continuity practices to better ensure that vital trading activities will also be able to resume when appropriate.

**2.44. Improving Mutual Fund Disclosures:** In 2000, we reported the fees charged by mutual funds had generally declined during the 1990s for the average large fund. However, not all funds whose assets had grown and thus had the opportunity to reduce their fees had done so. We also reported mutual funds do not generally compete on the basis

of the fees they charge investors. To improve investor awareness of these fees and increase price competitions among funds, we identified alternatives for regulators to increase the usefulness of fee information disclosed to investors. In late 2002, the Securities and Exchange Commission (SEC) issued proposed rules to enhance mutual fund fee disclosures using one of our recommended alternatives.

#### **2.45. Improving the SEC's Public Company Accounting Oversight Board Selection**

**Process:** The Sarbanes-Oxley Act of 2002 required that SEC appoint members to the newly created Public Company Accounting Oversight Board, which is responsible for the oversight of the audits of public companies in the wake of numerous corporate and accounting scandals. Given 90 days to appoint the five members to this board, SEC failed to establish a nomination and vetting process to ensure that the Commission had the information necessary to make informed selection decisions. SEC conducted the vetting process after the appointment. As a result, SEC appointed an oversight board Chairman that resigned within weeks amid controversy involving his role as chairman of an audit committee of a small technology company. In response to our work, SEC developed a new nomination and vetting process that clearly articulates the process and requires that all nominees be vetted prior to appointment to the board. The new process also articulates selection criteria and additional criteria that may be considered in the selection process.

**2.46. Reducing the Risks in International Weapon Development Programs:** Our June 1998 report addressing DOD's international agreement with Germany and Italy to acquire the Medium Extended Air Defense System found that DOD did not fully assess technology transfer issues before initiating the program and allies became unhappy with DOD's reluctance to share valuable technology. We recommended that DOD, prior to initiating future international efforts, complete an in-depth assessment of technology transfer issues. DOD concurred with the recommendation and, beginning with the third-quarter of fiscal 2004, will implement a modified technology transfer approach. This action should help DOD enter into more successful joint cooperative efforts with U.S. allies.

#### **2.47. Efficiency Improvements in the Department of State's Export Licensing**

**Process:** In December 2001, we reported that license applications for the sale of defense articles and services take a significant amount of time to review because of the complexity of the application and the need to consider different points of view. Our report also highlighted several conditions that reduce the efficiency of the application review process and resulted in hundreds of applications that were lost and thousands that were delayed while no substantive review occurred. In response to our recommendations, the Department of State developed detailed guidelines to assist licensing officers in deciding if license applications should be referred to other offices and agencies; established a system of highlighting license applications that may be stalled in the licensing process; and established a mechanism that tracks license applications as they move through the process.

#### **2.48. Ensuring Defense Emergency Response Funds are Better Targeted:**

We briefed the Senate and House Appropriations Defense Subcommittees in June and July 2002 on DOD's use of the Defense Emergency Response Fund. We reported that DOD managed about \$15 billion in emergency funds that it received from the Emergency Response Supplementals for fiscal 2001 and fiscal 2002, but had not obligated about \$3.7 billion of the funds. We also reported that of the unobligated amount, over \$535 million had not been allocated to the Fund's 10 categories and consequently were not connected with specific requirements. The Congress subsequently rescinded \$224 million from the Fund because funds were not used quickly enough and were for relatively lower-priority activities. The Congress also directed DOD to realign \$276 million in the Fund to address other funding requirements.

## Strategic Goal 3

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

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

#### **3.1. Adjustment of Civil Penalties for Inflation:**

In a series of reports, we determined that a number of federal agencies had not adjusted their civil penalties for inflation in a manner consistent with the Federal Civil Penalties Inflation Adjustment Act, as amended, and we recommended that the agencies make those adjustments. Subsequently, consistent with our recommendation, seven agencies have published *Federal Register* notices adjusting their penalties for inflation or otherwise taking action to comply with the statute.

#### **3.2. Affecting the Legislative Debate on Federal Involvement with the District of Columbia:**

Our report has already informed the debate over the fiscal relationship between the District of Columbia and the federal government and will likely set the tone for any future legislation or appropriations decisions regarding the District of Columbia. The report led to a House/Senate joint press conference and briefings with key Members and committees involved in District of Columbia issues, thereby bringing renewed attention and focus to these issues. Congressional staff, District of Columbia officials, and other experts said that the report would serve as a significant document shaping the future fiscal relationship between the District of Columbia and its congressional appropriations and oversight committees. District of Columbia officials also agreed to focus more attention on addressing the management problems outlined in our report.



Source: See Image Sources.

### *The Government's Human Capital and Other Capacity for Serving the Public*

#### **3.3. Injecting Factual Information into the Public Debate on Small Business Contracting:**

In several reports and testimonies, we highlighted concerns about federal contracting opportunities for small businesses and presented recommendations for improvement. Our contribution to the public debate on small business procurement has been to cut through the rhetoric and opinions, presenting factual evidence to show that information on small business contracting is often missing or misleading. We have also demonstrated that agencies have sometimes paid insufficient attention to ensuring that small businesses are getting their fair share of government contracting dollars. For example, in May 2003, we disclosed that large companies had received billions of dollars of federal contracts that were reported as going to small businesses. Our disclosure spurred congressional hearings and a series of actions by GSA and SBA to correct the problem and ensure that national small business goals are achieved. As a result of this body of work, the Congress and several executive branch agencies have taken steps to improve information and accountability for small business contracting.

### **3.4. Reforming DOD's Services Contracting:**

DOD is historically the government's largest purchaser of services—nearly \$100 billion in contract actions in fiscal 2003—but the highly decentralized DOD contracting environment has resulted in widespread problems complying with basic contract requirements, such as pursuing adequate competition and overseeing contractors' performance. In response to our work, the Congress enacted 2002 Defense authorization and appropriations legislation directing DOD to institute reforms of its services contracting and cutting DOD's 2002 appropriations by \$1.65 billion based on the expected costs avoided. DOD's reforms are to be guided on private sector best practices we describe as an overall strategic framework for purchasing. A number of changes are expected to DOD's current organizational structure, processes, and roles to support a more strategic approach, such as cross-functional buying teams to coordinate and manage contracting of key services.

### **3.5. Improving Governmentwide Decisions to Compete Commercial Activities:**

Our work on competitive sourcing improved governmentwide policy governing decisions in two areas. First, on the basis of our recommendation, OMB's new guidance incorporates a provision encouraging agencies to explore innovative alternatives to competitive sourcing such as High Performing Organizations and partnerships. This action makes the government's sourcing policy more strategic in that it broadens the choices agencies have for achieving efficiencies in their commercial activities. Second, on the basis of our work emphasizing the use of competitive sourcing goals that are based on considered sound analysis and research, the Congress passed legislation that prohibits agencies from using funds to establish, apply, or enforce any numerical goal, target, or quota for their competitive sourcing activities "...unless it is based on considered research and analysis of past activities and is consistent with the stated mission of the agency."

### **3.6. Helping DOD Recognize and Address Business Modernization Challenges:**

Since 1995, we reported and testified on the challenges DOD faces in trying to successfully modernize about 2,300 business systems, and we made a series of recommendations aimed at establishing the modernization management capabilities needed to be successful in transforming the department. For

example, we recommended that DOD implement key modernization management controls—such as investing in new and existing systems within the context of a corporate blueprint, commonly called an enterprise architecture—using an incremental or modular investment management approach, to ensure that value commensurate with costs is being realized and that investment selection decision-making follows a portfolio-based approach that considers the relative merits and risks of competing investment options along with resource constraints. Additionally, we recommended that DOD establish and implement rigorous and disciplined acquisition management processes for its business system investments. DOD said that it is committed to addressing these recommendations. Toward that end, DOD has, for example, implemented some key architecture management capabilities, such as assigning a chief architect and creating a program office, as well as issuing the first version of its business enterprise architecture in May 2003. In addition, DOD has revised its system acquisition guidance. By implementing our recommendations, DOD can increase the likelihood that its systems investments will support effective and efficient business operations and provide for timely and reliable information for decision making.

### **3.7. Helping to Advance Major Information Technology Modernizations:**

Our ongoing work has helped to strengthen the management of the complex, multibillion-dollar information technology modernization program at the Internal Revenue Service (IRS) to improve operations, promote better service, and reduce costs. For example, IRS implemented several of our recommendations to improve software acquisition, enterprise architecture definition and implementation, and risk management and to better balance the pace and scope of the program with its capacity to effectively manage it.

### **3.8. Identifying Savings through Developing VA's Enterprise Architecture:**

Responding to our recommendation that VA effectively develop, implement, and manage its enterprise architecture, VA identified duplicative business functions, and an inefficient, ineffective, and unsecured "as-is" infrastructure in actions taken to develop its architecture. For example, they identified more than 30 independently designed and operated data networks, over 200 independent external network connections and

over 1,000 remote access system modem connections, and 57 implementations of Veterans Benefits Administration claims processing software. To address the “as is” network infrastructure, VA’s Telecommunications Modernization Project is expected to eliminate many of the networks and external network connections, thereby generating almost \$8 million in estimated costs avoided for fiscal 2002 through fiscal 2005.

### **3.9. Managing Investment in Overseas Agencies’ Information Technology (IT)**

**Capabilities:** In November 2001, we recommended that the Department of State limit investment in a common overseas knowledge management system used to facilitate unclassified information/knowledge sharing among foreign affairs agencies until it had, at a minimum, secured stakeholder involvement and buy-in. Otherwise, State risked investing in a system that would not be used by the other agencies and/or that failed to meet these agencies’ needs. State spent \$18 million on prototyping and pilot testing efforts in an unsuccessful attempt to achieve stakeholder buy in and subsequently canceled the program in 2003. By following our recommendation, State did not spend the remainder of the \$235 million estimated to acquire and deploy a system that may not have been used by all foreign affairs agencies.

### **3.10. Reducing DOD’s Implementation Risks and Purchase Costs for the Navy-Marine Corp Intranet:**

As part of our fiscal 2001 and fiscal 2002 DOD information technology budget analyses work for congressional defense committees, we identified risks to the effective and efficient acquisition and implementation of the Navy-Marine Corps intranet. We noted the need for various management controls. DOD officials took actions to address issues we raised, and as a result, modified the Navy-Marine Corps intranet contract and reduced contract amounts by \$400 million in fiscal 2002 and \$366.3 million in fiscal 2003. By modifying the contract, DOD reduced program risks and increased the likelihood that the program will be acquired and implemented successfully.

### **3.11. Helping Customs and Border Protection Improve its Information Technology Modernization Program:**

Our prior and ongoing work has resulted in DHS’s Bureau of Customs and Border Protection (formerly the U.S. Customs

Service) strengthening its ability to manage its multi-billion-dollar information technology modernization program. Our recommendations have focused on the need for the Bureau to develop and implement key system acquisition practices, address human capital management weaknesses, and establish an independent review function to oversee the modernization contractor. The Bureau’s adoption of these and earlier recommendations related to enterprise architecture, cost estimating, and the elimination of duplication between two planned systems has improved its acquisition management capability, resulted in reduced exposure to risk, and saved tens of millions of taxpayer dollars.

### **3.12. Improving Agency IT Investment Management Capability:**

In May 2002, we issued our IT Investment Management (ITIM) Framework, which lays out a five-stage model for agencies to follow as they implement investment management process improvements. The ITIM provides a widely accepted standard for organizations to reference as they develop their own approach to investment management. Since its release, the ITIM has been adopted by many agencies as either the basis for process redesign or a framework for evaluating progress in process improvement to guide change. In addition, IGs from several agencies have used the ITIM for the independent assessment of investment management practices. Internationally, the ITIM has been adopted and adapted by several national audit organizations for their use. The National Association of State Chief Information Offices has also referenced the ITIM.

### **3.13. Improving Federal Management and Sharing of Terrorist Watch Lists:**

Watch lists are important tools used by federal agencies to help secure our nation’s borders. In reviewing the federal government’s approach to developing, using, and sharing watch lists in performing the border security mission, we found that the federal approach was decentralized, fragmented, and non-standard. We also found that the number and variability of watch lists, combined with their commonality of purpose, pointed to opportunities for improvement. As a result of our recommendations, the Secretary of DHS, in collaboration with the heads of other departments and agencies, initiated a watch list consolidation initiative as part of an effort to develop a border and transportation security blueprint to strengthen border protection



and information sharing in the wake of September 11. After our report was issued, DHS's Chief Information Officer said in testimony before the Congress that the responsibility for watch list consolidation had been transferred to the newly established Terrorist Threat Integration Center.

**3.14. Promoting the Effective Use of Enterprise Architectures:** An enterprise architecture is an essential tool for effectively and efficiently engineering business processes and for implementing and evolving supporting information technology systems, thus optimizing mission performance. Over the past decade, our work has shown that the lack of such architectures has resulted in inefficiencies and duplication associated with the lack of integrated business operations and supporting information technology. To help guide agencies in their enterprise architecture management efforts, we developed and published a maturity framework, which provides federal agencies, including OMB, with a common benchmarking tool for planning and measuring their efforts to improve enterprise architecture management. The maturity model has been widely accepted across the federal government, with some agencies adopting the framework as a de facto standard for measuring enterprise architecture management maturity.

**3.15. Improving Defense Software Development and Acquisition Capabilities:** Since 1997, we have reported on weaknesses in DOD's ability to manage software-intensive system development and acquisition programs and made recommendations to correct weaknesses on specific programs. In 2001, we reported that while some DOD component organizations were systematically and proactively addressing software process improvement, DOD did not have a corporate approach to accomplishing this. Accordingly, we made a series of recommendations aimed at leveraging software process improvement efforts across DOD. In the fiscal 2003 Defense Authorization Act, the Congress used our recommendations in directing DOD to establish and implement a program for improving its software management process controls.

**3.16. Governmentwide Actions to Identify and Report Improper Payments:** Over the past several years, we recommended that federal agencies review their programs and activities for improper

payments, develop and implement actions to reduce those payments, and report the status and impact of the corrective actions taken to the administration and the Congress in a publicly available report. As a result of the Improper Payments Information Act of 2002, OMB has issued guidance on how federal agencies should implement the act. It expects that, when implemented, the guidance should improve the integrity of the government's payments and the efficiency of its programs and activities. OMB recently estimated annual improper payments at about \$35 billion. Federal agencies are in the process of developing and taking actions to implement the guidance.

**3.17. Improving Internal Controls and Accountability over Agency Purchases:** Our work examining purchasing and property management practices at FAA identified several weaknesses in the specific controls and overall control environment that allowed millions of dollars of improper and wasteful purchases to occur. Such weaknesses also contributed to many instances of property items not being recorded in FAA's property management system, which allowed hundreds of lost or missing property items to go undetected. Acting on our findings, FAA established key positions to improve management oversight of certain purchasing and monitoring functions, revised its guidance to strengthen areas of weakness and to limit the allowability of certain expenditures, and recorded assets into its property management system that we identified as unrecorded. FAA has additional actions in progress to further tighten controls and improve operations.

**3.18. Contributing to Auditing and Ethics Standards:** Serving as a catalyst for prudent reform in the auditing profession, we contributed comments on draft professional auditing and ethics standards of the American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors (IIA). We analyzed and commented on four AICPA exposure drafts, covering (1) audit risk assessment and the audit model, (2) reporting on internal control over financial reporting, (3) ethics rulings and interpretations, and (4) peer review within the profession. We also commented on IIA's exposure draft of amended standards for the professional practice of internal auditing. Our comments to both the AICPA and IIA also provided guidance for clarifying the role of internal auditors as a critical

component of the corporate governance system. Through our continuing contributions to other professional audit organizations, we are leading by example and hope to lead the way in reestablishing transparency and trust in auditing.

**3.19. Improving the Cost-Effectiveness of the Decennial Census:** Our continuing series of congressionally requested reviews of the decennial census has made the Census Bureau more accountable and results oriented and identified significant cost reductions. For example, our report on the lessons learned in planning a more cost-effective census, among others, recommended actions to help control the cost of the 2010 enumeration (now estimated at around \$11 billion) and promote better financial management at the Census Bureau. Similarly, as a result of our reports on the Bureau's efforts to count the homeless and Hispanics, the Bureau took steps to improve its procedures for counting and reporting data on these two population groups. Another review found that the Census Bureau overstated its estimate of the life-cycle cost of the 2010 Census by \$300 million. Consequently, when the Bureau reissues its estimate of the cost of the 2010 Census, it plans to reduce the life-cycle cost by this amount.

## *Support Congressional Oversight of the Federal Government's Progress Toward Being More Results-Oriented, Accountable, and Relevant to Society's Needs*

**3.20. Improving DOD's Environmental Liabilities Estimate:** In April 2001, we reported that DOD did not have complete and accurate data needed to reliably estimate and report to the Congress the environmental cleanup costs associated with its training ranges, which were reported at \$14 billion for fiscal 2000 even though other DOD estimates showed that the amount could exceed \$100 billion. In response to our recommendations, DOD has now taken numerous actions to improve the cleanup estimate, including designating a focal point to oversee and manage the reporting of training range liabilities, validating the cost model used to estimate the cleanup costs, implementing inven-

tory guidance to include key information and all types of training ranges, and developing and implementing a standard cost methodology. With these improvements, DOD's reported liability should provide the Congress with a reasonable estimate of the long-term budget implications of cleaning up DOD's training ranges.

**3.21. Reducing National Security Risks Related to Sales of Excess DOD Property:** In testimony before the Subcommittee on National Security, Veterans Affairs, and International Relations, House Committee on Government Reform, we reported that DOD did not have systems and processes in place to maintain visibility and control over 1.2 million chemical and biological protective suits. The lack of visibility over these sensitive items resulted in unused chem-bio suits being declared excess and sold to the public over the Internet for pennies on the dollar. As a result of our work, DOD has taken action to restrict the chem-bio suits to DOD use only and has discontinued their sale to the public—steps that should eliminate the national security risk associated with sales of these sensitive military items.

**3.22. Improving Accountability over Sensitive DOD Munitions:** In a series of reports and testimonies beginning in 2000, we reported on problems in tracking in-transit ammunition shipments, including highly sensitive items. In response to our findings and recommendations, DOD now has procedures in place to maintain "cradle to grave" accountability of its most sensitive munitions. Further, the Congress acted on the conditions we reported and required the Secretary of Defense to report to congressional defense committees on six key areas in relation to the transportation of munitions using commercial trucking companies. Accountability over these items was also strengthened when, in light of our findings and recommendations regarding commercial motor carriers, DOD took action to improve security for munitions shipments by rail, sea, and air.

**3.23. Informing the Congress about Data Mining Technology:** In March 2003, we were asked to testify at an oversight hearing on data mining technology. Our expertise gained in data mining work as part of audits and investigations of federal credit card and other programs provided the basis for our testimony. We testified that while data

mining alone is generally not sufficient to identify systemic breakdowns in controls and provide specific recommendations, it serves to “put a face” on the control breakdowns and provides managers with examples of the real and costly consequences of failing to properly control these large programs. Our analysis helped the Congress understand that data mining—with the right mix of technology, human capital expertise, and data security measures—can be an important oversight tool.

**3.24. Helping Agencies Improve Audits of Purchase Card Programs:** In response to a congressional request, we issued an exposure draft of an audit guide intended to help auditors and fraud investigators as they review government purchase card programs. With governmentwide purchase card spending at about \$15 billion annually, federal agencies are accountable for how purchase cards are used and how the funds are spent. The guide—based primarily on our experiences in auditing and investigating purchase card programs at various agencies—focuses on audits of internal control activities designed to prevent or detect significant instances of fraud, waste, or abuse. The guide provides a sound basis for program management oversight as well as detailed audit and investigative techniques for purchase card programs throughout government.

**3.25. Improving Financial Accountability for SBA’s Credit Programs:** In a report issued in early 2003, we cited numerous accounting and budgeting deficiencies at SBA that affected the reliability of information it reported on the results of its loan sales and the cost of its disaster loan program. Specifically, we found that SBA incorrectly calculated losses it reported on its loan sales, did not properly consider the effect of loan sales on the estimated cost of its remaining loans, and significantly overstated the reported value of its remaining loans. Our analysis alerted the Congress to a lack of financial accountability at SBA and, as a result of this work, SBA’s auditors withdrew their previously issued “clean” audit opinions on SBA’s fiscal 2000 and fiscal 2001 financial statements and found SBA’s fiscal 2002 financial statements to be unreliable. SBA agreed with our findings and recommendations and immediately took steps to correct the deficiencies, including hiring an independent consultant to thoroughly assess its accounting and budgeting procedures for its credit programs. In

addition, SBA suspended its loan sales activity until corrective measures could be taken. SBA’s corrective actions underway include the development of a new process to evaluate the cost of its disaster loan program, which will improve the reliability of information it provides to decision makers in future budget requests and financial statements.

**3.26. Improving Controls Over DOD’s Credit Cards:** In a series of reports and testimonies beginning in 2001, we highlighted pervasive weaknesses in the overall control environment, including the proliferation of cards, and specific controls over DOD’s multibillion-dollar purchase and travel card programs. We used data mining to identify suspicious transactions and followed up using forensic auditing techniques to identify numerous cases of fraud, waste, and abuse, including the purchase of a wide variety of goods and services that were unrelated to official business. Since we began this work, DOD has substantially lowered its vulnerability by reducing the number of purchase and travel cards by over 900,000. Our continued focus in this area has generated nearly \$200 million in avoided costs and 174 recommendations to improve DOD’s program operations.

**3.27. Increasing Focus on Addressing High-Risk Areas and Management Challenges:** We updated our high-risk list in 2003, which now consists of 26 areas. Our audits and evaluations continue to identify federal programs and operations that are high risk, in some cases, because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement. We also identified high-risk areas to focus on major economy, efficiency, or effectiveness challenges, and have increasingly used the high-risk designation to draw attention to the challenges faced by government programs and operations in need of broad-based transformation. OMB has begun working with agencies to develop specific goals and target dates to address the areas that we have designated as high risk. The companion performance and accountability series contains separate reports covering management challenges at each cabinet department, most major independent agencies, and the U.S. Postal Service, as well as a summary report that gives a governmentwide perspective. These efforts contribute to a continuing focus and sustained attention on implementing our recommendations and bringing about lasting solutions in these areas.

**3.28. Improving Agency Capacity to Evaluate Federal Programs:** We noted that agencies have had difficulty explaining in their performance reports how their program activities help achieve agency goals, in part, because of agencies' limited use of the rigorous program evaluation methods needed to establish a causal connection between program activities and outcomes. In 2002, we described how five diverse agencies relied on existing research to design their program strategies and link them to agency goals, and some developed program logic models to identify their expected knowledge, attitude, and behavioral outcomes. One particular challenge is for information dissemination programs that do not act directly but inform and persuade others to act to achieve their social or environmental goals. In 2003, we encouraged several agencies with information campaigns to adopt logic models to articulate their program strategy and identify appropriate outcome measures. We also described how diverse agencies successfully produced credible program evaluations through establishing an evaluation culture, acquiring or developing quality data and analytic expertise, and leveraging resources through collaborative partnerships. Our work provides concrete examples of strategies that, with leadership commitment, other agencies could adopt to build their evaluation capacity and produce credible information on their programs' effectiveness.

**3.29. Exploring the Need for a System of Key National Indicators:** To help decisionmakers address critical challenges facing the nation, more and better information than now exists may be needed. A comprehensive national indicator system could provide the information to help assess the nation's position and progress in such key areas as business and markets, education, health, and natural resources. In cooperation with the National Academies, we hosted, in February 2003, a forum on the topic with national leaders and experts. The participants agreed on the need for such an enterprise and this event catalyzed several important follow-on initiatives: (1) strong interest from the Congress; (2) formation of a national coordinating committee to pursue the goal of creating a key national indicator system; and (3) a global indicators forum to be led by the Organisation for Economic Co-operation and Development.

**3.30. Improving the District of Columbia's Performance Report:** Over the past 4 years, in mandated reviews of the District of Columbia's annual performance report, we made recommendations for expanding the report coverage to include goals and measures for all major activities as well as related expenditure. In response, the District of Columbia's fiscal 2002 report provided a more comprehensive review of the city's performance than prior reports, included performance results for significant activities that had not previously been included, and established criteria for reporting on court orders. The District has also undertaken initiatives, such as implementing performance based budgeting, creating a performance management council, and developing data collection standards, that could assist in improving overall management. In addition, the District of Columbia agreed with the recommendations in our May 2003 report to move beyond the requirements of the mandate to improve the usefulness of the performance reports as a management tool by addressing issues of data quality, including additional analysis in future years.

**3.31. Forestalling Increase in Postage Rates until 2006:** In May 2002, concerned that the Postal Service may be over funding its pension fund, we requested that OPM determine the extent to which the U.S. Postal Service had funded and was projected to have funded the pension benefits of its employees who participate in the Civil Service Retirement System. OPM reported that the Service was projected to over fund its obligations by almost \$78 billion for the period over which pension benefits are expected to be paid. Our request and subsequent review of OPM's analysis culminated in the enactment of the Postal Civil Service Retirement System Funding Reform Act of 2003, which reduced the Service's pension costs by an average of \$3 billion per year over the next 5 fiscal years. The Congress directed that the cost reduction attributable to the first 3 fiscal years be used to reduce the Postal Service's debt and hold postage rates unchanged until at least fiscal 2006, 2 years beyond its planned fiscal 2004 rate increase.

**3.32. Revising DOD's Working Capital Fund Workload Estimates:** Our recent series of reports on excessive amounts of unfinished work at fiscal year end—referred to as carryover—for DOD's working capital funds resulted in the Congress reducing DOD's appropriations in these areas by

\$514.1 million. In addition, DOD has acted to implement our recommendation that it revise the formula used to calculate the value of work on-hand at year-end. If implemented appropriately, the new formula should eliminate the misleading and inconsistent carryover data previously reported to the Congress.

**3.33. Measures to Improve Security at the Los Alamos National Laboratory:** Since DOE began its contract reform efforts in 1994, we have reported on numerous occasions that the department should consider competing all of its major site contracts, especially when there are performance problems with the incumbent contractor. In 2001, we reported that despite glaring performance problems at certain DOE laboratories, the department excluded its largest laboratories—those operated by the University of California—from full and open competition. In 2002, we again reported that DOE continued to extend the contract with the university to operate the Los Alamos National Laboratory, a contract that has never been competed since its inception in 1943. The decision to extend this contract was not without controversy given the history of safety and security problems at the laboratory. DOE decided that these problems could be addressed using contract provisions instead of competitive bidding. In our report, we stated that it remained to be seen whether DOE would be successful in improving contractor performance using contract mechanisms, adding that if the university did not make significant improvements in performance, DOE may need to reconsider its decision not to compete this contract. In 2003, DOE released a report on management problems at the Los Alamos National Laboratory, and the report identified ineffective supervision by the university, inadequate federal oversight, and cultural factors as causes of the problems. The Secretary of Energy, citing “systemic management failures” subsequently announced that DOE has changed its position and would open the Los Alamos contract for competition when the current contract term expires in 2005.

**3.34. Contributing to Improved Understanding of Space Shuttle Safety:** Days prior to the tragic loss of Shuttle Columbia and its crew on February 1, 2003, we identified management challenges facing the National Aeronautics and Space Administration (NASA) in our performance and accountability series report. One of those challenges—Human

Capital Management—focused on reductions in NASA’s shuttle workforce, the loss of critical skills in that workforce, and the agency’s efforts to address them. We were asked to appear before a public hearing of the Columbia Accident Investigation Board to discuss these challenges. The board’s final report cited our work, including our review of NASA’s implementation of lessons learned. The maintenance of both good and bad experiences in corporate memory was identified by the Board as a best practice in safety organizations.

**3.35. Interpreting Federal Procurement Laws and Regulations:** The Procurement Law Division of the Office of General Counsel resolved 1,244 bid protests in fiscal 2003, 290 of which were decided by written decisions. These decisions provided guidance to the procurement community by interpreting the federal procurement laws and regulations. A number of these decisions (50) resulted in specific recommendations to the agency to correct irregularities in the agency’s conduct of its procurement.

**3.36. Bogus School and Fictitious Students Lead to Strengthened Controls:** The Senate Permanent Subcommittee on Investigations asked us to investigate control weaknesses in the administration of student loans for postsecondary education under the Federal Family Education Loan Program. In an undercover investigation to expose vulnerabilities, investigators set up a fictitious school and obtained approval for student loans totaling \$55,500 on behalf of three fictitious students purportedly attending the school. On the basis of our work, the Department of Education retrained its staff on institutional eligibility requirements and certification procedures, revised its internal certification checklist (the document used to document that certification information was validated), ordered 100 percent validation of country approvals for all participating schools in 41 foreign countries, and disallowed use of a post office box address as the official location of a school or a third-party servicer of a school. These measures were in addition to others taken by Education to strengthen controls over the program’s administration.

**3.37. Contract Fraud in delivery of VA Health Benefits:** On the basis of information received through our FraudNET, we investigated alleged irregularities in administration of a contract between

the VA Medical Center and an optical services provider in Louisville, Kentucky. Our investigation identified improper billing practices for open market items by the contractor and poor oversight by the government of the \$20 million in annual charges against the contract. This was a joint investigation with VA's IG, who will present the matter to the U.S. Attorney's Office for prosecution.

## *The Government's Fiscal Position and Approaches for Financing the Government*

### **3.38. Strengthening Government Auditing**

**Standards:** Our publication of the Government Auditing Standards in June 2003 provides a framework for audits of federal programs and monies. This comes at a time of urgent need for integrity in the auditing profession and for transparency and accountability in the management of scarce resources in the government sector. This fourth major revision since the standards were first published in 1972 will guide audits of financial and program management not only in federal agencies, but also more than 30,000 state and local governments and nonprofit organizations that spent federal funds. After an extensive process of consultation with auditors and stakeholders, we have modernized the 1994 edition and incorporated previous, significant amendments on auditor independence, computer-based information systems, and auditor communication. The new revision of the standards strengthens audit requirements for identifying fraud, illegal acts, and noncompliance; redefines the types of audits and services covered; provides consistency of requirements across types of audits; and gives clear guidance to auditors as they contribute to government that is efficient, effective, and accountable to the people.

### **3.39. Auditing the U.S. Government's Financial Statements:**

As in the 5 previous fiscal years, we have been unable to express an opinion on the U.S. government's consolidated financial statements for fiscal 2002 because of ongoing material weaknesses in internal control and accounting and reporting issues. However, our efforts are paying dividends in the form of significant improvements in (1) financial reporting to facilitate the public's understanding of the financial statements and accompanying financial

information, (2) the financial statement audits performed by the agencies' IGs, and (3) addressing one of the major impediments to an opinion on the consolidated financial statements related to accounting for billions of dollars of transactions between federal government entities (intragovernmental activities and balances). For example, to address one of our suggestions, Treasury developed a system to help agencies better perform reconciliations of intragovernmental activity and balances. In addition, OMB has established a set of standard business rules for governmentwide transactions among agencies and is now requiring quarterly reconciliations of intragovernmental activity and balances.

### **3.40. Ensuring DOD Justifies Its Investment in Accounting Systems:**

In a 2003 report, we determined that DOD had not effectively managed its planned investment of over \$1 billion in four accounting system modernization efforts. Although the Secretary of Defense has identified the modernization of DOD's financial management and business operations as one of the agency's top 10 priorities, we found that long-standing problems persist. During our review, DOD terminated one of the four systems after spending over \$126 million, citing poor program performance and increasing costs. Cost reductions in the current fiscal year related to the canceled system totaled \$40 million. In concurring with our recommendations, DOD agreed to review the remaining three systems and to evaluate all accounting system investments to ensure that they are being implemented at acceptable cost and within reasonable time frames. DOD's inability to efficiently and effectively implement systems is a longstanding congressional concern. In deliberations on the fiscal year 2003 budget, the Congress expressed the need to control cost growth in DOD's IT development efforts and reduced its appropriations by \$400 million.

### **3.41. Contributing to Congressional Oversight of IRS:**

In the Internal Revenue Service Reform and Restructuring Act, the Congress set an ambitious agenda to transform IRS and oversee this transformation. We supported the Congress's increased oversight of IRS to help ensure that IRS provides quality service to taxpayers while continuing to enforce the tax laws. In our fiscal 2003 testimonies, we concluded that consistent, sustained focus on management fundamentals is beginning to

achieve results as evidenced by IRS's increased capabilities to manage and its improved service to taxpayers.

**3.42. Raising the Visibility of Long-Term Commitments in the Federal Budget:** The United States faces large and growing long-term fiscal challenges. For a number of years, we have used our long-term budget simulations to call attention to the need for structural change in the Social Security and Medicare programs. But, these are not the only areas in which federal programs or activi-

ties obligate the government to or create an expectation for future spending. We developed the concept of "fiscal exposures" to describe these activities and have called for new metrics and mechanisms to help consider their long-term implications. Through our outreach and reporting, we have helped draw attention to the federal government's multitrillion-dollar fiscal exposures and increase congressional and public awareness of the potential long-term fiscal consequences of the nation's policy choices.

## 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*

**4.1. Increasing Outreach and Service to GAO's Congressional Clients:** To enhance understanding of our congressional clients' needs, teams met with key committee leaders and staff directors to develop a comprehensive governmentwide audit, evaluation, and investigation agenda. We also expanded our Web-based client feedback survey to include all committees of the House and Senate. The feedback, which has been overwhelmingly positive thus far, is used to analyze how well our published products meet our clients' needs and identify opportunities for improvements. To clarify how we accept work from congressional leaders and committees, we have drafted revisions to our congressional protocols, which provide guidance on interacting with the Congress, and are in the process of briefing bipartisan, bicameral congressional leadership and committees on those protocols. We plan to implement these revisions in early calendar year 2004.

#### **4.2. Providing Emergency Relocation**

**Support:** We have worked to identify and implement relocation support provisions for the House in case of future emergencies that would require an evacuation of House facilities. In fiscal 2003, we completed preparations of the GAO building as a backup site for the House and updated our network and telephone systems to provide the House with emergency access to their own systems within 48 hours.



Source: See Image Sources.

#### **4.3. Automating a Weapons Systems Review**

**Process:** We developed and released a system to automate an existing data collection and analysis process, greatly expanding our annual capacity to review DOD weapons systems programs. As a result, we were able to increase staff productivity and efficiency and enhance the information and services provided to the Congress. We expect the number of weapons systems reviewed to increase to 80 per year (from a baseline of 8 systems reviewed per year), making multiyear reporting on individual systems readily available for the first time.

#### **4.4. Developing Agency and International**

**Protocols:** In pursuit of our goal to provide clearly defined, consistently applied, well-documented, and transparent policies for our work with federal agencies, we drafted agency protocols and piloted them in fiscal 2003. We expect to finalize the agency protocols after revisions to the congressional protocols are completed in early calendar year 2004. The draft of our international protocols was provided to the cognizant agencies and organizations for review and comment in fiscal 2003. We expect to finalize the international protocols in 2004.

#### **4.5. Making GAO's Work Accessible to the**

**American People:** We continued our policy of proactive outreach to our congressional clients, the press, and the public to enhance the visibility of our



products. On a daily basis we compile and publish a list of our current reports, "Today's Reports," on our external Web site. This feature has more than 18,000 subscribers, up 3,000 from this time last year. We also produced an update of our video on GAO, "Impact 2003." Our external Web site continues to grow in popularity, having increased the number of hits in fiscal 2003 to an average 3.4 million per month, 1 million more per month than in fiscal 2002. In addition, visitors to the site are downloading an average of 1.1 million files per month. We completed an assessment of our external Web site's usability in fiscal 2003. On the basis of the results of this assessment and a Web site customer satisfaction survey developed by the American Customer Satisfaction Index, we are redesigning our Web site to increase access and enhance the usability of the information. Finally, to inform news editors and editorial page writers of our value as a news source, we continued our outreach to the Washington and national press corps, arranging more than two dozen editorial board meetings featuring the Comptroller General with major newspapers, magazines, and news services in the United States.

## *Enhance Leadership and Promote Management Excellence*

### **4.6. Recognizing Resourceful Management:**

We were named a "CIO (Chief Information Officer) 100" by *CIO Magazine*, recognizing excellence in managing our IT resource through "creativity combined with a commitment to wring the most value from every IT dollar." We were one of 3 federal agencies named, selected from over 400 applicants, largely representing private sector firms. In particular, we were cited for excellence in asset management, staffing and sourcing, and building partnerships, and for implementing a "best practice"—staffing new projects through internal "help wanted" ads.

**4.7. Improving Strategic Management:** A number of efforts completed in fiscal 2003 contributed to improving our strategic management efforts. In January 2003, we issued our fiscal 2002 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 and includes our fiscal 2002 financial statements and the unqualified audit opinion rendered by an independent auditor. This report earned a Certificate of Excellence in Accountability Reporting from the Association of Government Accountants. To provide a more balanced performance measurement system in the future, we completed in fiscal 2003 an effort to produce baseline information for measures related to our relationship with our primary client—the Congress—and our most important asset—our people. To inform our strategic and annual performance planning efforts, we gather information and perspectives through several vehicles to enhance our understanding of emerging issues that might influence future work. For example, we held forums on corporate governance, key national indicators, and national and regional inter-governmental audit issues; established a new speakers' series called "Conversations on 21<sup>st</sup> Century Challenges;" held our annual meeting of the Comptroller General's Advisory Board; and worked with a number of issue-specific and technical panels to improve our strategic and work planning.

**4.8. Improving Our Planning Process:** In fiscal 2003, we continued to better align our strategic plan, performance and accountability efforts, and the budget process. A task force was formed to implement an accelerated schedule for the performance and accountability report to enable us to meet the accelerated deadline in fiscal 2003, a year earlier than the date that OMB has set for executive branch agencies. The task force implemented a detailed timeline, modified internal processes, and coordinated with our outside auditor. During fiscal 2003, we fully implemented our workforce planning process, addressing size, deployment, and profile of our staff to ensure we have the appropriate resources strategically placed to pursue our goals and objectives now and in the future. The strategic plan and workforce planning results serve as the foundation for our fiscal 2004 operating plan and fiscal 2005 budget request.

**4.9. Maintaining Integrity in Financial Management:** As part of our effort to be a model agency, in fiscal 2003 we retained the independent audit firm, Cotton & Co., LLP, to audit our financial statements. The auditors issued an unqualified opinion. We also conducted internal reviews of our compliance with requirements set forth in the

Financial Integrity Act and OMB Circular A-127, *Federal Managers' Financial Management Systems*. We reviewed aspects of our Financial Management System, including security controls, and assessed its consistency with the Standard General Ledger. No material weaknesses were identified as a result of these reviews which support management's assertion that our internal controls are proper and functioning well. In conformance with the e-government initiative, we are bringing electronic travel to GAO, beginning with the completion of the fiscal 2003 agencywide rollout of Travel Manager. Travel Manager allows our travelers to create and submit travel authorizations and vouchers electronically for approval and reimbursement, streamlining the administrative travel processes.

#### **4.10. Continuing to Provide Leadership in Strategic Human Capital Management**

**Planning and Execution:** The Human Capital Office (HCO) drafted our first comprehensive strategic plan for human capital, working with representatives from the Strategic Issues team. The purpose of the plan is to communicate both internally and externally our strategy for enhancing our standing as a model professional services organization, including how we plan to attract, retain, motivate, and reward a high-performing and top-quality workforce. We expect to publish the plan in early fiscal 2004 and make it available on our Web site. The Human Capital Office established the HCO Partnership Board to gather opinions of a cross section of our employees about upcoming HCO initiatives and ongoing programs. The 15-member Board will assist HCO in hearing and understanding perspectives of customers.

#### **4.11. Aligning GAO's Workforce and Mission Needs:**

In fiscal 2003, we expanded the scope of our college recruiting and hiring program to focus on gaps identified during our workforce planning effort. The HCO worked with teams to help identify and reach prospective graduates with the required skill sets and focused the intern program on attracting student interns with the skill sets needed for our analyst positions. We continued to emphasize the need for diversity in college recruiting, expanding our list of target universities to include a number of campuses that matriculate a diverse student body, and establishing on-going college relations activities with these schools. We ensured that our diversity was reflected in the recruiters who visited campuses

and conducted interviews and in our recruiting materials, and we worked with internal employee groups representing different minorities to benefit from their knowledge and experience. We also institutionalized an annual recruiter training program designed to provide our recruiters with the knowledge and information needed to recruit and attain a high-quality workforce. To determine whether our recruitment efforts are effective, we collected and analyzed data that we reported to our Office of Opportunity and Inclusiveness and other managers. The Comptroller General's Educators' Advisory Panel met in June 2003 to provide advice on recruiting, retaining, and developing staff as well as on strategic planning matters. Continuing our efforts to promote the retention of staff with critical skills, we offered student loan repayments of between \$4,000 and \$6,000—which are made directly to lending institutions—to 247 employees with 1 to 3 years of GAO experience in exchange for their signed agreement to continue working at GAO for at least 3 years.

#### **4.12. Acquiring and Applying Information Technology to Support GAO's Strategic Objectives and Business Plans:**

We have expanded and enhanced the IT Enterprise Architecture program we began in fiscal 2002. Specifically, we formally established an Enterprise Architecture oversight group and steering committee to prioritize our IT business needs, provide strategic direction, and ensure linkage between our IT Enterprise Architecture and our capital investment process. In addition, we have adopted an Enterprise Architecture Shared Business Model to ensure that the agency's business needs are driving our IT plan and to identify IT gaps. We implemented a number of user friendly, Web-based systems to improve our ability to obtain feedback from our congressional clients, facilitate access to our information for the external customer, and enhance productivity for the internal customer. Among the new and enhanced Web-based systems were (1) an application to track and access General Counsel work by goal, team, and attorney; provide links to information in the Engagement Reporting System; enhance system security and functionality; provide a wide variety of summary and detailed reports; and significantly improve the staffs' ability to search and share information; (2) a Regional Environmental Scan Web site to provide context for our teams and offices as they consult with the Congress, update our strategic

plan, track issues, and identify emerging trends; (3) an automated tracking application for our staff to monitor the status of products to be published; and (4) a system to generate records of meetings between teams and Members of the Congress or their staffs, allow for virtual storage and for staff to search these contact records and perform various content analyses to help better support our clients.

**4.13. Increasing Information Security:** We recognize the ongoing, ever present threat to our shared IT systems and information assets and continue to promote awareness of this threat, maintain vigilance, and develop practices that protect information assets, systems, and services. As part of our continuing emergency preparedness plan, we upgraded the level of telecommunications services between our Disaster Recovery Site and headquarters, expanding our remote connectivity capability and improving response time and transmission speed. To further protect our data and resources, we drafted an update to our Information Systems Security Policy, issued network user policy statements, hardened our internal network security, expanded our intrusion detection capability, and addressed concerns raised during the most recent network vulnerability assessment. Further, we deployed computer software to senior managers that provides authoritative and timely assurance that critical email has been received intact – without changes or modifications.

#### **4.14. Providing a Safe and Secure**

**Workplace:** On the basis of recommendations resulting from our physical security evaluation and threat assessment, we continue to implement initiatives in fiscal 2003 to improve the security and safety of our building and personnel. In terms of physical plant improvements, we upgraded the headquarters fire alarm system and installed a parallel emergency notification system. We are making great progress in enhancing our communication with staff, completing the Shelter in Place plan and the Emergency Response Handbook for headquarters occupants, providing Emergency Preparedness briefings for staff, and conducting the third annual Security Fair to disseminate information on security at the workplace and at home. To further increase the security of the headquarters building, we have obtained access to the National Crime Information Center Database to conduct minimal investigations on visitors, vendors, couriers, and non-GAO

employees entering the building. To ensure our continuity of operations should we have to vacate our headquarters due to an emergency, we made arrangements for an alternate facility to house a core capability. Finally, we completed a study of personal protective equipment and, on the basis of the resulting decision paper, have purchased escape hoods, bottled water, and glow sticks for our staff.

## *Leverage GAO's Institutional Knowledge and Experience*

#### **4.15. Increasing Capacity through**

**Knowledge-Sharing and Collaboration:** By collaborating with numerous organizations and individuals, we have strengthened professional standards, provided technical assistance, leveraged resources, and developed best practices. In fiscal 2003, we conducted our international fellows training program to build audit capacity in national audit offices around the world. We also collaborated with the Joint Financial Management Improvement Program, the Federal Accounting Standards Advisory Board, and the President's Council on Integrity and Efficiency to foster reforms in federal financial management and establish or strengthen audit and accounting standards and principles. We also collaborated with the Private Sector Council to examine private sector companies' best practices in preparing for disastrous events, while maintaining operations; the office of the State Auditor of Louisiana to develop a guide for evaluating the nation's transportation security efforts; auditors from 11 states to develop a report containing recommendations for improving the security of the food system; and VA's IG to conduct a joint investigation of billing practices and oversight efforts. To leverage our internal knowledge resources, we more fully integrated our internal technical specialists' knowledge into engagements. Our specialists contributed to more than 60 percent of our published products and were named as key contributors in over 40 percent of these products.

**4.16. Enhancing Information Sharing:** We greatly expanded our Web site capability to enhance knowledge-sharing, search capability, and usability for our customers. We enhanced our external Web site in fiscal 2003, organizing our products by agency to provide fast, user friendly, and flexible

search defaults and options such as the capability to search on subcollections. To reduce the response time for client information needs and promote inter-agency knowledge-sharing, we deployed several Web sites, including those for National Performance Indicators, the Performance and Accountability Series, and USAuditNet. We also deployed new and enhanced internal Web sites, such as those for Knowledge Services, General Counsel, the Applied Research and Methods team, the Office of Opportunity and Inclusiveness, and the Personnel Appeals Board, for staff to share and disseminate information in a more timely manner. To increase user friendliness and improve search efficiency, we created the GAO Publications Search Engine, used by our staff to search for our reports, testimony, decisions, and other products. We completed a study of portal technology as an avenue to deliver information to analysts and specialists and, on the basis of the study's findings, adopted the concept of "targeted portals" to collect, use, distribute, and retain organizational knowledge. In addition, we have established communities of practice, including a Web Technology Advisory Group and "results areas" in contracting, industrial base, NASA, and systems acquisition. Finally, to increase staff awareness and use of Web-based services, we developed and offered courses on Basic Internet Explorer and Evaluating Information on the Internet.

## *Continuously Improve GAO's Business and Management Processes*

### **4.17. Measuring the Value of Our Applications Development Process:**

An independent review determined that we are delivering superb and cost-efficient IT application support and development services to its business units. Compared with our peers, we scored "above average" in productivity, effectiveness, technology and organizational management, process maturity, and user satisfaction, and "better than average" in cost-efficiency.

### **4.18. Improving GAO's Products and Business Processes:**

To provide more efficient and effective means for staff to do their work, we automated a number of processes in fiscal 2003 such as implementing a new complaint tracking and reporting system for our Office of Opportunity and Inclusive-

ness, an automated database payment system, and an automated Web-based recruitment and application process. We also implemented WebTA, an off-the-shelf Web-based system designed to maintain effective internal controls over employees' time and attendance reporting and eliminate the current error-prone, redundant data entry process. A team consisting of employees from a number of organizational units collaborated in developing a computer program to create summary information in tables (known as an "e-supplement") for Web surveys. From May to September 2003, we deployed approximately 10 such Web surveys using this program in support of our engagements, resulting in substantial savings in staff days. Finally, the Gartner Group completed its assessment of our asset management practices, reported on asset management best practices, and provided recommendations to improve the process and guidance in developing requirements for a new automated inventory system.

**4.19. Realizing Efficiencies and Savings:** We continued our outstanding on-time delivery performance during the fourth quarter of fiscal 2003, delivering 100 percent of the orders from the Congress and the press and 99 percent of the orders from our staff within 8 hrs and delivering nearly 100 percent of the orders from the public within 3 days. Also, we selected an aggregate electrical contract to provide electrical power for the GAO building—a move that we estimate will reduce our costs by over \$11,000 each quarter.

## *Become the Professional Services Employer of Choice*

### **4.20. Maintaining a Fair, Unbiased, Family Friendly Environment:**

We drafted updates to our orders to formalize agency policy on family friendly leave policies and procedures relating to the Family and Medical Leave Act and on alternative workplace arrangements.

### **4.21. Leading the Way in Performance Management:**

In fiscal 2003, we evaluated the compensation and performance management system for analysts that was rolled out in fiscal 2002. As a result, we identified and implemented several improvements, including conducting mandatory tar-

geted training for over 1900 staff and managers on how to better understand and apply the performance standards, adjusting pay categories and percentage guidelines, reviewing the timing of notifying staff of pay panel results, and using achievements to break panel ties. In addition, sessions on documenting achievements and how to apply for promotions were available through our video broadcasts that are accessible through each employee's desktop computer. We also implemented the competency-based performance system for attorneys. To keep our staff apprised of the latest developments in compensation and performance management, we redesigned the Performance Management Systems Web site, streamlining existing information and adding information about the proposals for the Administrative, Professional, and Support Staff (APSS) system. To prepare for the APSS banding and pay for performance system, scheduled for implementation in fiscal 2004, we completed 338 position reviews of our APSS employees. We also identified eight job families and competency models in support of the new competency-based performance system for APSS staff. In addition, we analyzed our Office of Special Investigations investigator positions and identified a strategy to begin an appraisal and pay for performance system for those positions.

#### **4.22. Training Staff to Meet the New**

**Competencies:** The outline for a new competency-based and role- and task-driven learning and development curriculum was completed and approved by our Executive Committee. The curriculum structure identifies needed core and elective courses and other learning resources and provides course descriptions with specific learning objectives. To address the need for managerial and leadership training, we funded 66 external training opportunities. Requests were approved on the basis of how well the opportunities served the organization as a whole, enhanced current skills of staff to prepare for future leadership roles, and reflected agency diversity. Appropriate opportunities include

development of managerial, leadership, and executive skills, human capital training, and personal growth. In order to better align learning with the strategic goal for workforce development, we completed several key steps to improve the structure of our learning organization. In May 2003, we created the position of Chief Learning Officer and appointed an experienced training executive to that position. In July 2003, we established the GAO Learning Board to guide our learning policy, to set specific learning priorities, and to oversee the implementation of a new training and development curriculum. The board held its first meeting in August 2003 and meets monthly to set policy, identify priorities, and integrate curricula into broader organizational efforts.

#### **4.23. Modernizing the GAO Headquarters**

**Building:** As our workforce composition and organization evolves over time, the space we occupy must evolve as well. We completed several projects that increased the efficient and effective utilization of available space in the GAO building. We converted space on the first and second floors to consolidate staff and make use of formerly unused or little used space. We also began similar projects on the fourth and fifth floors. The sixth floor modernization project was completed, including construction of a new electronic security laboratory.

#### **4.24. IT Hardware and Software**

**Enhancements:** We are continually enhancing our IT hardware, software, and tools to help attract and retain staff and enable staff to do their jobs. For example, in fiscal 2003, we completed the distribution of flat panel monitors to all staff to improve visibility for users and decrease desktop space required; provided an international wireless telephone pool to allow our out of country travelers a means of communication; and deployed a Web-based video conferencing reservation system to allow headquarters and field staff to schedule a videoconference within or outside of the GAO building.

## 2. From the Inspector General



### Memorandum

**Date:** October 21, 2003

**To:** Comptroller General

**From:** Inspector General – Frances Garcia

**Subject:** Management Challenges

We have examined 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 2003 accomplishment reports claiming financial benefits of \$500 million or more and found that GAO has a reasonable basis for claiming these benefits. We also tested the procedures and methodologies used to calculate the performance measures and found them to be reasonable.

### 3. *GAO's Report on Personnel Flexibilities (Pub. L. No. 106-303)*

As required by Section 6a of Public Law 106-303, the GAO Personnel Flexibilities Act of 2000, we are providing a review of the actions taken by the agency in fiscal 2003 pursuant to 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 opportunities to agency employees when such action would serve to realign our workforce to meet budgetary constraints or mission needs, correct skill imbalances, or reduce high-graded positions.

In fiscal 2003, we offered two voluntary early retirement opportunities. The first opportunity was open for applications from November 4, 2002, to December 20, 2002. Approved applicants were required to retire between February 1, 2003, and March 14, 2003. Of the 39 individuals who applied, 37 were approved and 2 were disapproved. In total, 25 employees separated as 12 approved applicants withdrew their requests after approval. An additional voluntary early retirement opportunity was opened on June 26, 2003, with applications being accepted until August 12, 2003. Approved applicants were required to retire between September 1, 2003, and October 31, 2003. Of the 16 applications that were received, 15 were approved, 1 was disapproved, and 4 were later withdrawn after approval. As of September 30, 2003, 2 applicants had separated.

In summary, a total of 28 employees, including one special approval that was not part of either of the cycles, took voluntary early retirement from the agency in fiscal 2003. Since we first received this authority in October 2000, a total of 82 employees have retired, 82 percent of who were high-graded, supervisory, or managerial employees.

Use of our early out authority supports our efforts to address workforce imbalances. Vacancies created by voluntary early retirees have enabled us to target resources to reducing skill gaps and addressing succession concerns, including the hiring of additional entry-level staff. This has contributed to reshaping our human capital profile and acquiring critical skills needed to carry out our mission now and in the future.

#### *Section 2. Voluntary Separation Incentive Payments*

In addition to authorizing voluntary early retirement for our employees, Public Law 106-303 permits the Comptroller General to offer voluntary separation incentive payments – buyouts – to realign the workforce to meet budgetary constraints or mission needs; correct skill imbalances; or reduce high-graded positions. Under the act, up to 5 percent of the agency's employees could be offered such an incentive in any given year.

Given the many demands on limited agency resources, the high costs associated with offering buyouts present a strong financial disincentive to the use of this provision. Therefore, we anticipate little, if any, exercise of this authority. For this reason, as well as to avoid creating unrealistic employee expectations, we have not developed or issued agency regulations to implement this section of the act.

#### *Section 3. Reduction in Force*

Section 3 authorizes the issuance of revised regulations regarding 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 needed to realign our workforce; to correct skill imbalances; or to reduce high-grade,

supervisory, or managerial positions. Retention during a reduction or other adjustment in force in GAO 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.

We developed draft regulations to implement this provision that were made available to all employees for comment on September 26, 2002. The comments received were reviewed, analyzed for applicability, and incorporated where appropriate. Final regulations, *Workforce Restructuring Procedures for the General Accounting Office*, Order 2351.1, were issued on January 21, 2003.

We are required to report any reduction or adjustment in force action and to assess the resulting impact of such actions on employees eligible for veterans' preference. We did not conduct any reduction or adjustment in force in fiscal 2003. Consequently, there was no impact on the agency's veterans.

## Overall Assessment

In addition to describing the specific actions taken during the fiscal year under Sections 1 through 3 of Public Law 106-303, Section 6a requires us to annually assess the effectiveness and usefulness of the authorized personnel flexibilities in contributing to the agency's ability to carry out its mission, meet its performance goals, and fulfill its strategic plan and to recommend any legislation which the Comptroller General considers appropriate. Overall, we have used these authorities responsibly and found them to be effective in achieving their stated goals. In our 3-year assessment of the act's effectiveness required by Section 6b: Assessment of Public Law 106-303—*The Role of Personnel Flexibilities in Strengthening GAO's Human Capital* (GAO-03-954SP), June 2003—we described our use of the flexibilities, their effectiveness, and our recommendation to make them permanent.

While the overall number of employees electing voluntary early retirement has been relatively small in comparison to the agency's overall size, we believe that careful use of this authority has been an important tool in incrementally improving its overall human capital profile. Each separation has freed

resources for alternate uses, enabling us to open and fill new entry-level positions, as well as positions that have reduced skill gaps or addressed other succession concerns. For this reason, the agency is currently seeking legislation as a subsection of the "GAO Human Capital Reform Act of 2003" to make this voluntary early retirement provision a permanent authority.

The Comptroller General is also seeking legislation to make Section 2 of Public Law 106-303—authorization for the payment of voluntary separation incentives—a permanent flexibility. Although we have not yet utilized this buyout authority and have no immediate plans to do so, the agency is seeking to retain this flexibility. The continuation of this provision is prudent as it maximizes the options available to the agency to deal with unanticipated future workforce planning challenges.

Beyond the institutionalization of these two authorities, the GAO Human Capital Reform Act of 2003 requests additional human capital flexibilities in order to support the agency's strategic plan, while maintaining the resources necessary to deliver quality service to the Congress; continue leading by example in both government transformation and human capital reform; and attract, retain, motivate, and reward a quality and high-performing workforce. The provisions of such legislation will allow the agency to continue to invest in both people and institutional capacity, as well as modernize and update human capital policies and systems to respond to the changing environment and challenges that lie ahead.

Specifically, we are requesting that the Congress (1) make permanent our 3-year authority to offer early outs and buyouts, (2) allow us to set our own annual pay adjustment system separate from the executive branch, (3) permit us to retain the basic pay of an employee demoted as a result of workforce restructuring or reclassification but to set future increases consistent with the new position's pay parameters, (4) provide authority to reimburse employees for some relocation expenses when that transfer benefits GAO but does not meet the legal requirements for the reimbursement, (5) provide authority to place upper-level hires with fewer than 3 years of federal service in the 6-hour leave category, (6) authorize an executive exchange program with the private sector, and (7) change GAO's legal



name from the General Accounting Office to the Government Accountability Office. It is vitally important to our future that we continue moderniz-

ing and updating our human capital policies and system in light of the changing environment and anticipated challenges ahead.

## 4. GAO's Federal Information Security Management Act Efforts

We are implementing an information security program, consistent with requirements delineated in the Federal Information Security Management Act (FISMA) provisions enacted under the E Government Act of 2002, Public Law 107-347. While we are not obligated by law to comply with FISMA, we are adopting the requirements to help ensure that we establish an effective information security program and to fulfill our goal of being a model federal agency.

To assess the status of our 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 IT controls for our general support system by our IT auditors, who are independent of our IT support function. These reviews and evaluations identified no material weaknesses in our financial applications or general support system. They also showed that we are making substantial progress in implementing information security requirements consistent with FISMA through its efforts to:

- implement an agencywide information security program that will impact over 3,600 users;
- develop and implement a risk-based approach for all investment plans;
- develop essential policies and reporting mechanisms to ensure that our 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;
- identify our 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.

We continue to provide funding for IT security initiatives and training to upgrade the skills of our IT security staff and augment our security staff through contractor support, as necessary.

Reviews and evaluations of our IT security program have also identified areas where improvements could be made. We are currently taking corrective action in these areas and have undertaken several projects that will significantly improve our information security program during fiscal 2004. Among these projects are the following:

- **Intrusion detection**—Having completed the process of applying host-based intrusion detection software to our external servers, we have begun to apply this software to our internal servers and plan to expand this effort during fiscal 2004 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. We have installed network intrusion detection systems throughout our network.
- **Strong user authentication**—We have delivered a strong (two-factor) authentication system to all staff. The system requires staff accessing our 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 our general support system is legitimate. We have completed the implementation plan for securing internal wireless links and Virtual Private Networks with two-factor authentication. During fiscal 2004, we expect to extend the authentication system to all of our remote access options. We have implemented a password management device to securely store and

transmit users' credentials on mission-critical systems and applications under the control of our administrative staff.

- **IT disaster recovery**—We are refining the disaster recovery plan we developed last year and have conducted limited testing exercises to ensure the viability of the plan. We have worked directly with the vendor of our disaster recovery site to strategically position critical backup computing assets and established essential telecommunications links for our client-server-based systems. We are implementing a new network storage technology that we expect to integrate into our disaster recovery infrastructure during fiscal 2004. In addition, we are exploring the feasibility of implementing secure Web-based technology for user access via the network.

- **Vulnerability assessment**—We have instituted a process consistent with the requirements cited in the FISMA to scan the General Support System for vulnerabilities and potential exploits. We utilized the patch authentication and distribution process through the Federal Computer Incident Response Center to maintain up-to-date patches to stabilize our network.

- **Security test and evaluation**—We plan to acquire contract support in conducting independent security test and evaluations of all major applications and the general support system during the next fiscal budget. The test and evaluation is a critical component of the certification and accreditation process that will require us to perform periodic testing and evaluation of the effectiveness of information security policies, procedures, and material weaknesses, including testing operational and technical controls.

## 5. Acronyms

AGA	Association of Government Accountants	FEDCIR	Federal Computer Incident Response Center
AICPA	American Institute of Certified Public Accountants	FEHBP	Federal Employees Health Benefit Program
AIDS	Acquired Immune Deficiency Syndrome	FEGILIP	Federal Employees Group Life Insurance Program
ARM	Applied Research and Methods	FEMA	Federal Emergency Management Agency
APSS	Administrative, Professional, and Support Staff	FHA	Federal Housing Administration
CASO	Controller/Administrative Services Office	FISMA	Federal Information Security Management Act
CDC	Centers for Disease Control and Prevention	FMA	Financial Management and Assurance
CFO	Chief Financial Officer	FMCI	Financial Markets and Community Investment
CIO	Chief Information Officer	FTE	Full-Time Equivalent
CJCC	Criminal Justice Coordinating Council	GAAP	Generally Accepted Accounting Principles
CMS	Centers for Medicare & Medicaid Services	GAO	General Accounting Office
CPI	Consumer Price Index	GSA	General Service Administration
DCM	Defense Capabilities and Management	HCO	Human Capital Office
DHS	Department of Homeland Security	HC	Health Care
DOD	Department of Defense	HSJ	Homeland Security and Justice
DOE	Department of Energy	HUD	Department of Housing and Urban Development
DOJ	Department of Justice	IAT	International Affairs and Trade
DOT	Department of Transportation	IG	Office of Inspector General
EAC	Employee Advisory Council	IIA	Institute of Internal Auditors
EPA	Environmental Protection Agency	INTOSAI	International Organization of Supreme Audit Institutions
EWIS	Education, Workforce, and Income Security	ISTS	Information Systems and Technology Services
FAA	Federal Aviation Administration	IT	information technology
FASAB	Federal Accounting Standards Advisory Board	ITIM	IT Investment Management
FBI	Federal Bureau of Investigation	IRS	Internal Revenue Service
FCS	Future Combat System (Army)		
FDA	Food and Drug Administration		

KS	Knowledge Services	SBA	Small Business Administration
NASA	National Aeronautics and Space Administration	SEC	Securities and Exchange Commission
NNSA	National Nuclear Security Administration	SGA	substantial gainful activity
NRE	Natural Resources and Environment	SI	Strategic Issues
OMB	Office of Management and Budget	SSA	Social Security Administration
OPM	Office of Personnel Management	SSI	Supplemental Security Income
PBGC	Pension Benefit Guaranty Corporation	UNESCO	United Nations Educational, Scientific, and Cultural Organization
PCIE	President's Council on Integrity and Efficiency	USAID	United States Agency for International Development
PDP	Professional Development	USDA	United States Department of Agriculture
PI	Physical Infrastructure	VA	Department of Veterans' Affairs
QCI	Quality and Continuous Improvement	WIA	Workforce Investment Act
SARS	Severe Acute Respiratory Syndrome		

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