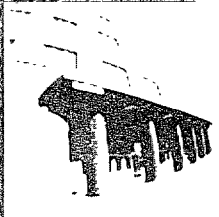


COMPTROLLER GENERAL'S 1994



ANNUAL REPORT



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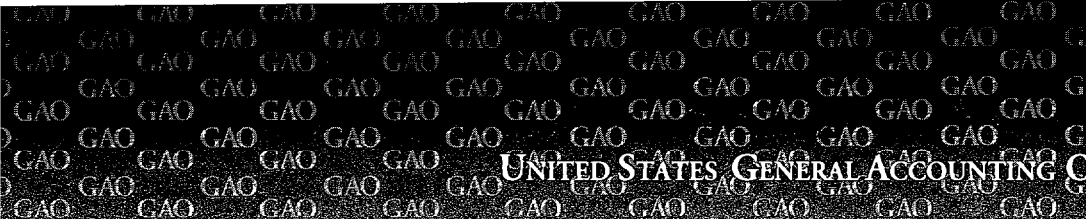


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A MESSAGE FROM THE COMPTROLLER GENERAL

Almost exactly a decade ago, in February 1985, GAO issued a two-volume report entitled *Managing the Cost of Government: Building an Effective Financial Management Structure*. We pointed out that the federal government—then as now the largest financial operation in the world—was employing financial management concepts and practices that were weak, outdated, and grossly inefficient. The problem spanned the whole spectrum of federal agencies. It hampered the ability of federal managers to prevent waste, fraud, and abuse. It denied policymakers the information they needed to make informed decisions. It undercut the public's perception of government, creating a loss of confidence that was largely deserved.

In response to this problem, we called for Congress to bring some order to the government's financial affairs. Our report outlined the need for firm commitment, clearly identified leadership responsibility, and continuity of purpose. It called for the preparation and audit of annual financial statements. It stressed the need for accountability and accurate reporting, improved planning and programming, systematic performance measurement, reliable information systems, and adequate accounting standards.

In the years that followed, we worked closely with Congress to pursue these goals, and our efforts have paid great dividends in the past 5 years. In 1990, the Chief Financial Officers (CFO) Act was passed, creating the federal government's first pilot program for agencywide financial statements. Three years later, the Government Performance and Results Act (GPRA) made performance management the touchstone of government operations. And in 1994, the Government Management Reform Act expanded the provisions of the CFO Act and set the stage for consolidated, governmentwide financial statements by 1998.

ACCOUNTABILITY: A LONG TIME COMING

Taken together, the ideas we advanced in *Managing the Cost of Government* were really nothing more than the elements of modern, responsible business practice. And yet, logical as they may seem today, these ideas took a long time to gain a footing—not just among federal agencies, but among publicly owned corporations and state and local governments as well. Simply put, the ingredients needed for sound financial management tend not to capture the public's imagination until things get out of hand—or near to it.

There was a time, for example, when publicly owned corporations were under no requirement to have audited financial statements. It took a dual calamity—the stock market crash of 1929 and the Great Depression—to bring about the creation of the Securities and Exchange Commission and comprehensive financial reporting requirements for publicly owned firms. That was in 1934.

Forty years later, no corresponding requirements existed for state and local governments. Then, New York City nearly went bankrupt. The city overestimated its revenues, underestimated its expenses, never knew how much cash it had on hand, and borrowed repeatedly to finance its deficit spending. Poor accounting practices were common among state and local governments, but New York City's financial crisis put these problems in the spotlight.

Sensitive now to the implications of financial management deficiencies at the state and local levels, Congress focused on an issue directly affecting federal interests: the states' and localities' widespread lack of accountability for the financial aid the federal government provided them. That aid had expanded from 132 programs costing \$7 billion in 1960 to over 500 programs costing nearly \$95 billion in 1981. Considering the lack of comprehensive audits done of state and local governments, no one could be sure of the extent to which all this money was subject to waste or misuse. With the stakes grown so high, and with the signs of trouble so apparent, Congress passed the Single Audit Act of 1984.

The act required every state or local entity receiving \$100,000 or more in federal financial assistance in any fiscal year to undergo a comprehensive, "single" audit of its financial operations by an independent auditor on an annual basis. The objective was to replace separate grant-by-grant audits with comprehensive audits of the entities receiving these grants, eliminating both the duplication that comes from having several different audits of the same entity and gaps in audit coverage created by haphazard audit schedules.

Last June, we completed a study of the effects of the Single Audit Act and reported that over 21,000 state and local entities had audited financial statements under the act. State and local officials told us the single audit process has contributed to improving their financial management practices. They have installed new accounting systems, begun having annual comprehensive financial statement audits, adopted or accelerated the adoption of generally accepted accounting principles,

improved systems for tracking federal funds, strengthened administrative controls over federal programs, and increased oversight of entities to whom they distributed federal funds. Systems are now in place not just to detect problems after they have occurred, but to prevent them before they happen.

THE FEDERAL GOVERNMENT GETS THE MESSAGE

The Single Audit Act passed in 1984—50 years after Congress made financial reporting the rule for public corporations. With passage of the CFO Act in 1990, Congress moved at last to have federal agencies meet the same sort of financial statement reporting requirements as public corporations and state and local governments. Under the CFO Act, the scope of these requirements among federal agencies was limited but considerable. First, all U.S. government agencies were to prepare financial statements for all trust funds, revolving funds, and commercial activities. In essence, this meant that financial statements would be prepared whenever the federal government conducted activities similar to those of private businesses. Second, the act required that 10 cabinet departments and large agencies participate in a 3-year pilot program to test the usefulness of agencywide financial statements. Would the preparation of financial statements tell decisionmakers things they need to know? Would they help managers direct their organizations more effectively?

To both questions, the answer was yes. As GAO reported more than once during 1994, financial statement audits have provided a much clearer picture than has ever existed of the government's financial condition, including massive problems of uncollected revenues and unrecognized liabilities. Financial statement audits have also brought discipline to federal agencies' efforts to pinpoint waste, mismanagement, and possible illegal acts and have revealed the gaps in their efforts to safeguard the government's assets. Audits have also identified actual and potential savings of hundreds of millions of dollars. Moreover, they have confirmed just how little confidence Congress and program managers can place in the information they now receive: our audits of the Internal Revenue Service, the Customs Service, the Department of the Air Force, and the Department of the Army identified accounting errors amounting to billions of dollars—mistakes and omissions that can render financial information virtually useless.

The findings were sobering, of course, but they were also crucial to Congress's decision to take the requirements of the CFO Act one critical step further. The audited financial statements required under the CFO Act covered only about 60 percent of the government's budget authority and relatively few agencies on an overall basis. Medicare and Medicaid, for instance, were excluded—to the tune of \$200 billion a year. So was almost two-thirds, or \$16 billion, of the Department of Energy's annual obligations to integrated contractors. So was the Navy's \$90 billion yearly appropriation. But with the value of audited financial statements now fully demonstrated, Congress extended the CFO Act requirements to 24 major departments and agencies, accounting for virtually the entire federal

“Financial statement audits now provide a clearer picture than has ever existed of the government's financial condition.”

budget. Just as important, Congress made these requirements permanent—a fact of life from now on in the federal sector. Further, it mandated that by March 31, 1998, the newly emerging financial data be brought together in governmentwide consolidated financial statements—an unprecedented step toward a true portrayal of the government's overall financial status.

MANAGING INFORMATION

One of the benefits of requiring federal agencies to have audited financial statements is that it will help them to develop reliable information management systems. This will be useful discipline for federal agencies, which after spending more than \$200 billion on information systems over the past 12 years, still find themselves lacking the data needed to analyze programmatic issues, control costs, or measure results. The problem is not that the needed information management technologies do not exist; it is, by and large, that federal agencies have failed to keep pace with new practices in the field of information management or to maintain the skills they need to define their information needs and select and operate the appropriate information management systems.

When Congress passed the Paperwork Reduction Act of 1980, part of its intent was to increase the efficiency and effectiveness of federal programs through the use of information technology. But since then, in examining virtually all critical functions of the federal government, we have found that the information technology objectives of the act simply have not been met. We decided, therefore, to look—for a change—at organizations that have managed information technology successfully. What practices did these organizations follow—private and public sector alike—that made them succeed where federal agencies have not?

The result of our inquiry was our 1994 report entitled *Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology*. We found among our case studies 11 fundamental management practices that we believe are crucial to building a modern information management infrastructure. These practices fall into three basic categories: deciding to work differently; directing resources toward high-value uses; and supporting improvements with the right skills, roles, and responsibilities. We learned that seemingly intractable information management problems can be resolved if given the right kind of attention. Putting the appropriate principles in practice made it possible for the organizations we studied to be more competitive, reduce costs, or dramatically improve customer service. The current environment demands that federal agencies do the same.

PUTTING RESULTS FIRST

The fact is that federal agencies can no longer muddle through merely by spending more money on their programs. If anything, the amount of money available is shrinking, not growing. With the CFO Act, Congress has already let federal agencies know they must handle their finances more responsibly. With GPRA, it has told them they must now make the programs themselves work better. GPRA calls for agencies to set goals for program performance and to measure performance. These practices provide the tools for managers to put the focus on results.

Given the magnitude of the changes involved, GPRA's requirements—among them, the development of 5-year strategic plans, annual performance plans, and annual program performance reports—will not apply governmentwide before fiscal year 1997. In the meantime, GPRA has mandated that at least 10 departments and agencies be designated as pilot projects for goal setting, measurement, and reporting in fiscal years 1994, 1995, and 1996.

Would federal agencies be receptive to results-oriented management? The best indication so far may be this: While GPRA required that there be at least 10 designated pilot projects, the actual number now exceeds 70. The pilot projects range in size from small programs to entire agencies, including the Internal Revenue Service, the Defense Logistics Agency, and the Social Security Administration.

THE GOAL: IMPROVING GOVERNMENT

GPRA, the CFO Act, and the Government Management Reform Act of 1994 go together as significant and hopeful responses to the ever-tightening demands on government. Add to these the themes struck by the National Performance Review, and it is clear that major changes are in the works.

Meanwhile, GAO continues to help the federal government increase its efficiency and effectiveness and control its costs. Our work often contributes to legislative and executive branch actions that result in significant financial benefits to the government. These include budget reductions, avoided costs, appropriation deferrals, and revenue enhancements. During fiscal year 1994, we recorded measurable financial benefits to the government of nearly \$19.5 billion.

During fiscal year 1994, we produced 1,252 audit and evaluation products, including 901 reports to Congress and agency officials, 129 formal congressional briefings, and 222 congressional testimonies delivered by 77 GAO executives. We also issued over 3,000 legal decisions.

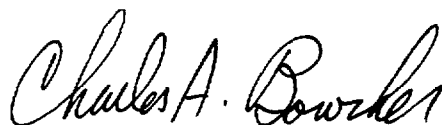
“New legislation gives managers the tools to put the focus on results.”

We achieved these benefits and production levels while continuing our efforts to become a smaller and more efficient organization. Since fiscal year 1992, GAO has worked closely with its appropriations committees on a plan to reduce the size of GAO. By the end of fiscal year 1994, GAO had reduced its size by over 10 percent and is now at its lowest staff level in a quarter of a century. We are committed to managing this reduction so that the quality and impact of our work are not compromised. We continue to serve the growing information needs of Congress by making better use of information technology and improving our work processes.

Some highlights of this year's audit and evaluation work appear in the next section of our annual report, followed by an overview of our operations and by our financial statements. One of the accomplishments in which we take the most pride, however, has been broader and more cumulative: it is our role in helping Congress improve the way federal agencies pursue the business of government.

Looking back on *Managing the Cost of Government*—our report of a decade ago—one is struck by how many of the ideas we hoped to advance in 1985 are now finding widespread application. Many agencies have chief financial officers; some have produced audited financial statements and more will soon do so. Accountability and accurate reporting, improved planning and programming, systematic performance measurement, reliable information systems, adequate accounting standards—all of these principles are gaining long-overdue attention and are being built into the way federal agencies will operate in the future. With the appropriate follow-through, we may eventually see a government where the waste or misuse of funds is less likely to occur, one where policymakers and agency executives have reliable information with which to make decisions, one where the public can put renewed confidence.

The federal government is not yet operating on sound, modern business principles, but the value of making it do so has been recognized, and the first major steps toward making it do so have been taken. That is an encouraging start.



Charles A. Bowsher
Comptroller General
of the United States

“The first major steps have been taken toward having the government operate on sound business principles. That is an encouraging start.”



HIGHLIGHTS OF GAO REPORTS AND TESTIMONY



In fiscal year 1994, GAO prepared 1,252 audit and evaluation products, including 901 reports to Congress and agency officials, 129 congressional briefings, and 222 congressional testimonies delivered by 77 GAO executives. GAO also issued over 3,000 legal decisions.



The selected reports and testimonies that follow reflect the broad range of issues GAO addressed during the year. After the title of each testimony is the name of the senior executive who delivered it on behalf of GAO.



October 1993

■ 47 Reports to Congress

■ 34 Testimonies

■ FINANCIAL MANAGEMENT: RELIABILITY OF WEAPON SYSTEM COST REPORTS IS HIGHLY QUESTIONABLE

Army weapon system cost information, which came from at least 18 financial and logistics systems, was incomplete and inconsistent among systems, did not include all costs required by Army guidelines, reflected unsupported adjustments, and could not be independently verified. As a result, Congress and other users of reports reflecting this cost information cannot be fully confident that reported costs are reliable. In addition, such unreliable cost information can undermine the resource-decision-making process. (AIMD-94-10)



■ SOCIAL SECURITY ADMINISTRATION: SSA NEEDS TO ACT NOW TO ASSURE WORLD-CLASS SERVICE

Testimony by the Associate Director for Income Security Issues, Jane L. Ross

SSA provides benefits to about 47 million people today and will provide benefits to many more in the future. SSA is already seeing the effects of a significant rise in disability cases, an area already plagued by major processing delays. But if SSA cannot develop the necessary long-range plans, efficiently manage computer systems modernization, address workforce needs, and control its finances, it risks significant deterioration in its ability to serve the public efficiently and effectively. (T-HRD-94-46)

STATE AND LOCAL FINANCES: SOME JURISDICTIONS CONFRONTED BY SHORT- AND LONG-TERM PROBLEMS

*Testimony by the Director for Operations, Human Resources Division,
Gregory J. McDonald*

Between 1985 and 1991, state and local government surpluses fell as spending grew faster than revenues. The decline in state and local budget surpluses could worsen the effects of the federal deficit on the economy, potentially reducing long-term growth. In GAO's view, the trends and the differences in state and local financial conditions should be part of discussions on health care reform, welfare reform, and other major policy initiatives in which state and local governments are expected to play a key role.
(T-HRD-94-1)



TAX ADMINISTRATION: IRS CAN DO MORE TO COLLECT TAXES LABELED "CURRENTLY NOT COLLECTIBLE"

At the end of fiscal year 1992, about 40 percent of IRS' inventory of delinquent accounts, which totaled more than \$130 billion, were classified as "currently not collectible." A GAO sample of these accounts found that many were classified on the basis of inadequate work, were questionable given available information, or did not fully provide for future collection potential. Some of these accounts could have collection potential because they were for individuals who reported incomes of more than \$70,000. (GGD-94-2)

NASA: MAJOR CHALLENGES FOR MANAGEMENT

Testimony by Assistant Comptroller General, National Security and International Affairs Division, Frank C. Conahan

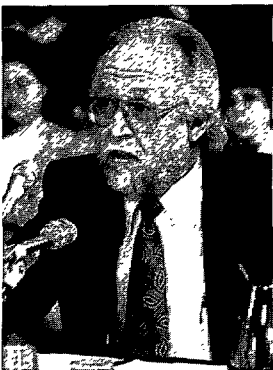
Fundamental management challenges facing the National Aeronautics and Space Administration (NASA) include the need to bring plans in line with likely budgets, manage systems development efforts more efficiently, improve operations and oversight, and preserve U.S. aeronautical leadership. Although top NASA management seems committed to improvement, delivering on that commitment will require new and improved management systems, as well as strong leadership to overcome ingrained attitudes and resistance to change.
(T-NSIAD-94-18)

PESTICIDES: LIMITED TESTING FINDS FEW EXPORTED UNREGISTERED PESTICIDE VIOLATIONS ON IMPORTED FOOD

The Food and Drug Administration (FDA) found few residue violations for pesticides that were produced in the United States, exported to other countries, and possibly used on food imported into the United States. FDA was prevented from testing for all such pesticides, however, because it did not identify all of them and because test methods were not always available. Manufacturers are not required to provide reference standards and test methods for unregistered pesticides, and without that information, FDA cannot perform the necessary tests to ensure that violations are not occurring. (RCED-94-1)

NUCLEAR WEAPONS: SAFETY, TECHNICAL, AND MANPOWER ISSUES SLOW DOE'S DISASSEMBLY EFFORTS

The Department of Energy (DOE) has established a very ambitious schedule for disassembling retired nuclear weapons. In the past, transportation problems have limited DOE's ability to meet the schedule, and safety, storage, and manpower problems could limit future disassembly capacity. DOE should reevaluate its disassembly schedule to ensure that its goals do not conflict with safety. (RCED-94-9)



FOREIGN MILITARY AID TO ISRAEL: DIVERSION OF U.S. FUNDS AND CIRCUMVENTION OF U.S. PROGRAM RESTRICTIONS

Testimony by the Director of the Office of Special Investigations, Richard C. Stiener

Pratt & Whitney, a U.S. jet engine manufacturer and defense contractor, was involved in transactions that diverted U.S. foreign military assistance funds intended for the Israeli military. Although aware of problems with the program in 1987, the Israeli government did not establish significant new program controls until 1990. In 1993, the Department of Defense tried to provide better oversight by eliminating direct commercial contracts and requiring that funds be allocated through the Foreign Military Sales program managed by U.S. agencies. GAO, however, concluded that these sales are also vulnerable to abuse. (T-OSI-94-9)

November 1993

■ 63 Reports to Congress

■ 17 Testimonies

■ HIGH-SPEED GROUND TRANSPORTATION: ISSUES AFFECTING DEVELOPMENT IN THE UNITED STATES

Incremental improvements to existing railroad systems—such as electrifying rights-of-way, eliminating grade crossings, installing new tracks and signals, and acquiring new trains—can be built for about \$10 million per mile, making them less costly than other high-speed ground transportation options and more likely to be built in the near term. The Department of Transportation, however, needs to, among other things, focus on a limited number of projects to ensure that funding is sufficient to complete these projects. (RCED-94-29)

■ INTERSTATE BANKING: BENEFITS AND RISKS OF REMOVING REGULATORY RESTRICTIONS

Removing interstate banking and branching restrictions could benefit the safety and the soundness of the industry, the regulatory process, and bank customers by encouraging the growth of larger, more geographically diversified banking companies. However, removing such restrictions poses financial and service quality risks as well. These risks can be minimized by limiting interstate expansion to well-run and well-capitalized institutions, properly implementing the early closure and safety and soundness provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991, and vigilant antitrust enforcement. (GGD-94-26)

HEALTH INSURANCE: CALIFORNIA PUBLIC EMPLOYEES' ALLIANCE HAS REDUCED RECENT PREMIUM GROWTH

Many health care reform proposals call for purchasing cooperatives to manage competition among health care plans. One frequently cited cooperative, the California Public Employees' Retirement System, has successfully negotiated health premiums for many public employers in California. Its success is attributable to several factors: a budget crisis that led the state to freeze its premium contribution in 1992, an aggressive approach with health maintenance organizations (HMO), and the introduction of a standard benefit package for HMOs in 1993. (HRD-94-40)



MEDICARE: ADEQUATE FUNDING AND BETTER OVERSIGHT NEEDED TO PROTECT BENEFIT DOLLARS

Testimony by the Director of Health Financing and Policy Issues, Sarah F. Jaggard

The Medicare safeguard program helps protect billions of dollars in benefit payments. Despite the rising volume of Medicare claims, however, the safeguard program budget has declined by over 20 percent, on a per claim basis, over the last 5 years. With reduced per claim funding, fewer or less stringent payment controls are applied to keep the review workload manageable and opportunities to curb millions of dollars of unnecessary Medicare expenditures are being lost. (T-HRD-94-59)



MILITARY SMALL ARMS PARTS: POOR CONTROLS INVITE WIDESPREAD THEFT

Testimony by the Director of Defense Management and NASA Issues, Donna M. Heivilin

Thefts and attempted thefts of small arms parts from the military supply system, including those for the military M16 rifle, continue. Some of the parts stolen can be used to convert civilian semiautomatic weapons into automatic weapons. An indicator of the pervasiveness of these thefts is that military small arms parts are readily available to the public at gun shows across the country. The thefts have gone undetected for years because of inattentive management and the lack of internal controls—that is, basic checks on the ordering and the handling of the parts. (T-NSIAD-94-79)

BUDGET POLICY: INVESTMENT BUDGETING FOR THE FEDERAL GOVERNMENT

Testimony by the Director of Budget Issues, Paul L. Posner

For long-term economic growth to be increased, the federal budget process needs to focus on long-term decision-making. A federal investment budget component could help Congress and the President make better-informed decisions on federal spending on short-term consumption versus investments for the future. Such a component, however, must be established within the context of a unified budget framework striving to cut the deficit over an appropriate period.

(T-AIMD-94-54)



December 1993

■ 59 Reports to Congress

■ 4 Testimonies

■ FINANCIAL MANAGEMENT: STRONG LEADERSHIP NEEDED TO IMPROVE ARMY'S FINANCIAL ACCOUNTABILITY

The Army's financial accountability for billions of dollars in resources is seriously undercut by weaknesses in its disbursement systems, inadequate controls over computer processing of financial and logistics information, and limited progress in the Department of Defense's efforts to improve financial management. Overall, the lack of sustained Department leadership has impaired the Army's ability to strengthen financial accountability. (AIMD-94-12)

■ REGULATORY BURDEN: RECENT STUDIES, INDUSTRY ISSUES, AND AGENCY INITIATIVES

Regulatory burden studies released in 1992 and 1993 highlighted major banking industry concerns about the cumulative burden from safety and soundness regulations, consumer protection requirements, and reporting requirements. Although these studies did not produce reliable estimates of the aggregate cost of banking industry regulation, they underscored concerns about the effect of the cumulative burden on the industry's competitiveness and ability to provide credit. Federal regulatory agencies initiated actions to reduce unnecessary regulations and streamline numerous supervisory processes. (GGD-94-28)

FEDERAL HOME LOAN BANK SYSTEM: REFORMS NEEDED TO PROMOTE ITS SAFETY, SOUNDNESS, AND EFFECTIVENESS

Congress overhauled regulation of the Federal Home Loan Bank System in 1989. In GAO's view, however, additional reforms are necessary, including (1) changing the way the System repays its share of the cost of the savings and loan bailout; (2) developing appropriate risk-based capital standards for System banks; (3) making membership in the System voluntary for all eligible financial institutions; and (4) merging the System's regulator with the Office of Federal Housing Enterprise Oversight, thereby creating a single safety and soundness regulator for all three housing-related government-sponsored enterprises. (GGD-94-38)

HEALTH INSURANCE REGULATION: WIDE VARIATION IN STATES' AUTHORITY, OVERSIGHT, AND RESOURCES

State insurance departments' authority for overseeing health insurers and protecting consumers extends over only part of the market and varies widely among states. About 24 percent of health care is paid for by private health insurance regulated by state insurance departments. As Congress reviews various proposals for health care reform, it needs to consider what role these state insurance departments will play in enforcing requirements that may be imposed on health insurers. (HRD-94-26)

VA HEALTH CARE: VA MEDICAL CENTERS NEED TO IMPROVE MONITORING OF HIGH-RISK PATIENTS

In a recent 2-year period, about 7,000 searches were conducted throughout the Department of Veterans Affairs (VA) system for high-risk patients—those unable to care for themselves—who had wandered away from their treatment settings. Although VA is working to develop procedures to search for such patients, it should also concentrate on reducing the need for searches by closely monitoring high-risk patients to prevent them from wandering away. (HRD-94-27)

U.N. PEACEKEEPING: LESSONS LEARNED IN MANAGING RECENT MISSIONS

The capability of the United Nations to implement peacekeeping missions is limited, as evidenced by its operations in Cambodia and Somalia: (1) operational plans for the Cambodia mission were not fully prepared before deployment, (2) supplies and equipment for the Cambodia mission arrived long after deployment, and (3) military and civilian peacekeepers were deployed late for both missions. The two missions also illustrated the importance of clear mandates and a solid political framework for peace. (NSIAD-94-9)

DAIRY INDUSTRY: POTENTIAL FOR AND BARRIERS TO MARKET DEVELOPMENT

Since 1981, Congress has sought to reduce the U.S. dairy industry's dependence on federal financial support. As a result, the government's costs under the U.S. dairy program shrank from \$2.7 billion in fiscal year 1983 to \$395 million in fiscal year 1992. In addition, recent international trade agreements may promote freer trade, causing the U.S. dairy industry to be more responsive to market forces. (RCED-94-19)

MANAGEMENT REFORM: GAO'S COMMENTS ON THE NATIONAL PERFORMANCE REVIEW'S RECOMMENDATIONS

GAO generally agrees with the National Performance Review (NPR) report recommendations, which emphasize many basic themes stressed previously by GAO. The ultimate success of the NPR, however, will depend on the strategies and the action plans developed to implement the recommendations. Priority attention must be given to improving agencies' management capacities so they can assume additional authority and responsibility contemplated by the NPR and be held accountable for results. (OCG-94-1)

**BUREAU OF RECLAMATION: INFORMATION ON
THE FEDERAL FINANCIAL COMMITMENT AND REPAYMENT
STATUS OF THE CENTRAL ARIZONA PROJECT**

*Testimony by the Director of Natural Resources Management Issues,
James Duffus III*

Construction of the Central Arizona Project, a massive water project estimated to cost \$4.7 billion, is nearly complete. The project is expected to provide Arizona residents with flood control, fish and wildlife enhancement, recreation, commercial power, groundwater conservation, and water supply. Significant uncertainties remain, however, including how much of the costs will ultimately be paid by the federal government and whether the Central Arizona Water Conservation District will be able to pay its share of the costs.
(T-RCED-94-92)



January 1994

■ 55 Reports to Congress

■ 2 Testimonies

■ STUDENT LOANS: MILLIONS LOANED INAPPROPRIATELY TO U.S. NATIONALS AT FOREIGN MEDICAL SCHOOLS

The Department of Education is required to ensure that foreign medical schools are comparable to U.S. schools before allowing them to participate in the student loan program. However, the Department does not have adequate standards to ensure that the schools are comparable or enforce the few standards that exist nor do its procedures preclude students attending unapproved schools from receiving loans. As a result, the Department made \$118 million in questionable loans between 1986 and 1991 to students attending foreign medical schools. (HEHS-94-28)

■ PRESCRIPTION DRUGS: COMPANIES TYPICALLY CHARGE MORE IN THE UNITED STATES THAN IN THE UNITED KINGDOM

On the basis of May 1992 price information, drug manufacturers charged 60 percent more for 77 commonly prescribed brand-name drugs in the United States than in the United Kingdom. The price differences were due mainly to the lack of regulatory constraints in the United States, not differences in manufacturers' costs. In the United Kingdom, the government health system, which is virtually the sole payer for prescription drugs, has an agreement with manufacturers that limits profits that they may earn on sales. (HEHS-94-29)

NAVY AVIATION: V-22 DEVELOPMENT—SCHEDULE EXTENDED, PERFORMANCE REDUCED, AND COSTS INCREASED

In October 1992, the V-22 Osprey tilt-rotor aircraft program was still experiencing major design uncertainties and operational problems and the cost of each aircraft was estimated to be as much as \$64 million. At that time, the Navy began considering a V-22 variant and other helicopter alternatives. As part of its cost-benefit analysis, the Navy should use more realistic capability assumptions, and it should ensure that the most cost-effective alternative meets operational requirements before requesting procurement funds or committing to production. (NSIAD-94-44)

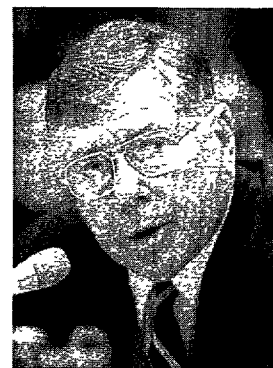
STRATEGIC BOMBER: ISSUES RELATING TO THE B-1B'S AVAILABILITY AND ABILITY TO PERFORM CONVENTIONAL MISSIONS

Despite plans to modify 60 of 95 B-1B bombers, only 40 are capable of flying conventional combat missions, a number that is not expected to increase significantly over the next decade. Further, although the Air Force requires 29 of its 65 spare B-1B engines to be serviceable at any given time to keep the planes in operation, only 5 were serviceable as of September 1993. Structural cracks in the aircraft are also a continuing problem. (NSIAD-94-81)

IMPROVING GOVERNMENT: ACTIONS NEEDED TO SUSTAIN AND ENHANCE MANAGEMENT REFORMS

Testimony by the Comptroller General of the United States, Charles A. Bowers

The federal government still lacks a basic foundation to ensure accountability and implementation of broader management reforms. In GAO's view, Congress should expand the requirement for audited financial statements to more programs and agencies, strengthen the framework for managing information technology, focus on high-risk programs, implement the Government Performance and Results Act, and develop sound strategies for implementing the National Performance Review recommendations. (T-OCG-94-1)



**AVIATION SECURITY: ADDITIONAL ACTIONS
NEEDED TO MEET DOMESTIC AND INTERNATIONAL
CHALLENGES**

After the Pan Am flight 103 tragedy, the Federal Aviation Administration (FAA) strengthened security at U.S. domestic and international airports; many questions remain unanswered, however. For example, even though FAA and the Federal Bureau of Investigation examined 18 of 19 U.S. airports that have high traffic volumes and complex security programs, the agencies did not match the capabilities, the methods, or the intent of known terrorist groups with individual airport vulnerabilities, which is important to determine the appropriate level of security necessary and to develop effective contingency plans. (RCED-94-38)

February 1994

■ 58 Reports to Congress

■ 18 Testimonies

IMPROVING GOVERNMENT: GAO'S VIEWS ON H.R. 3400 MANAGEMENT INITIATIVES

Testimony by the Comptroller General of the United States, Charles A. Bowsher

GAO generally supports the thrust of the management reform proposals in the Government Reform and Savings Act of 1993, most of which came from the National Performance Review. GAO, however, suggests some alternative provisions for congressional consideration and proposes an additional provision related to preparing and auditing a consolidated picture of the federal government's financial condition. (T-AIMD/GGD-94-97)

TAX ADMINISTRATION: ELECTRONIC FILING FRAUD

*Testimony by the Director of Tax Policy and Administration Issues,
Jennie S. Stathis*

While electronic filing of federal tax returns increased by 13 percent in 1993 over 1992, the rate of fraudulent electronically filed returns detected by the Internal Revenue Service (IRS) increased by 105 percent. With IRS planning to greatly expand electronic filing to 80 million returns by 2001, it needs to thoroughly assess its controls to prevent and detect fraud and determine what is necessary to adequately protect the government's revenues. (T-GGD-94-89)





MILITARY SPACE PROGRAMS: OPPORTUNITIES TO REDUCE MISSILE WARNING AND COMMUNICATION SATELLITES' COSTS

Testimony by the Director of Systems Development and Production Issues, Louis J. Rodrigues

Both the Defense Support Program (DSP) and the Milstar program, two Department of Defense space programs designed for the Cold War, need to be adapted to tactical warfare in regional conflicts. The Department's decision to end the DSP follow-on program provides an opportunity to fully consider the new tactical requirements and reduce program costs. Also, if the Department canceled some of Milstar's planned large-sized satellites and developed a lower-cost system of smaller satellites, Milstar program costs could be reduced by billions of dollars. (T-NSIAD-94-108)

SOCIAL SECURITY: DISABILITY BENEFITS FOR DRUG ADDICTS AND ALCOHOLICS ARE OUT OF CONTROL

Testimony by the Associate Director for Income Security Issues, Jane L. Ross

With the number of alcoholics and drug addicts receiving disability benefits from the Social Security Administration increasing rapidly, the agency must improve its monitoring of these recipients to ensure that benefits are not used to support addictions. About 250,000 addicts currently receive disability benefits at an annual cost of \$1.4 billion, but the vast majority of them are not required to be in treatment. (T-HEHS-94-101)

MANAGED HEALTH CARE: EFFECT ON EMPLOYERS' COSTS DIFFICULT TO MEASURE

Testimony by the Associate Director for National and Public Health Issues, Mark V. Nadel

Although certain "managed care" plans have the potential to deliver health care at lower cost, little empirical evidence exists showing that the use of these plans has contained employers' overall health care costs. The plans also limit employees' choice of physicians, which is considered a major drawback of these plans. To gain greater employee acceptance, employers are offering newer types of managed care plans with more flexibility but less cost-saving potential. (T-HEHS-94-91)

COMMUNITY DEVELOPMENT: BLOCK GRANT ECONOMIC DEVELOPMENT ACTIVITIES REFLECT LOCAL PRIORITIES

Congress has appropriated more than \$62 billion to the Community Development Block Grant Program since 1975. Grantees identified three factors, however, that affect the use of program funds for economic development, including the inconsistent interpretation of program rules by Department of Housing and Urban Development personnel. In addition, because local economic conditions and economic development strategies differ, program funds had been used to support many types of jobs, and there were no generally accepted federal criteria for defining job quality. (RCED-94-108)

WATER POLLUTION: POOR QUALITY ASSURANCE AND LIMITED POLLUTANT COVERAGE UNDERMINE EPA'S CONTROL OF TOXIC SUBSTANCES

The Environmental Protection Agency (EPA) controls toxic pollutant discharges into waterways through seven "core" activities spread across several programs. Some of the information used to analytically support these activities may be of doubtful quality, raising questions about the effectiveness of these activities in controlling toxic pollutants. EPA needs to immediately address this quality-of-information issue and expand the use of the Toxic Release Inventory database in the permitting process. (PEMD-94-9)

DOD SERVICE ACADEMIES: FURTHER EFFORTS NEEDED TO ERADICATE SEXUAL HARASSMENT

*Testimony by the Director of Military Operations and Capabilities Issues,
Mark E. Gebicke*

GAO found widespread sexual harassment at the nation's military academies; 93 to 97 percent of female students reported some form of sexual harassment in 1991. Although the academies generally have complied with minimum requirements for programs to eliminate sexual harassment, Inspectors General have not reviewed sexual harassment prevention and education at the academies and none of the academies has developed usable data to assess the effectiveness of its program. (T-NSIAD-94-111)



March 1994

■ 68 *Reports to Congress*

■ 31 *Testimonies*

WEATHER FORECASTING: SYSTEMS ARCHITECTURE NEEDED FOR NATIONAL WEATHER SERVICE MODERNIZATION

The National Oceanic and Atmospheric Administration lacks an overall blueprint to guide the design, the development, and the evolution of the many subsystems comprising its \$4 billion modernization of the National Weather Service's systems for weather observing, information processing, and communications. This situation has arisen primarily because the multiple subsystems have not been managed as interrelated parts of a single system. (AIMD-94-28)

MONEY LAUNDERING: U.S. EFFORTS TO FIGHT IT ARE THREATENED BY CURRENCY SMUGGLING

People disguising illicit income are avoiding U.S. reporting rules for currency transactions exceeding \$10,000 by smuggling cash out of the country. Funds deposited in a foreign institution are much harder to trace and can be spent or transferred back to the United States with less risk of exposure. The Department of the Treasury and the Customs Service have no way to estimate the amount of currency being smuggled, although agency officials believe the amount is substantial, potentially billions of dollars each year. (GGD-94-73)

BANK INSIDER ACTIVITIES: INSIDER PROBLEMS AND VIOLATIONS INDICATE BROADER MANAGEMENT DEFICIENCIES

In 26 percent of the nearly 300 bank failures in 1990 and 1991, insider problems were cited as one of the major causes. The federal bank examiners cited the banks for 561 insider violations. GAO also found similar violations in 13 open banks. In both the failed and open banks, GAO found a strong relationship between insider violations and poor bank management. Bank examiners often failed to adequately communicate to bank boards of directors and management the potential seriousness of problems and violations, allowing the problems to go uncorrected and become more serious. (GGD-94-88)

HEALTH CARE IN HAWAII: IMPLICATIONS FOR NATIONAL REFORM

*Testimony by the Associate Director for National and Public Health Issues,
Mark V. Nadel*

Hawaii has led the effort to achieve universal access to health insurance. Although its employer mandate to provide minimum health insurance benefits to employees has helped Hawaii achieve the highest level of insurance coverage of any state, its programs do not ensure coverage for everyone. In addition, Hawaii's per capita health care costs have increased at a rate similar to the national average. An employer mandate, by itself, will not necessarily result in universal access to health care. (T-HEHS-94-123)



MULTIPLE EMPLOYMENT TRAINING PROGRAMS: MAJOR OVERHAUL IS NEEDED

*Testimony by the Associate Director for Education and Employment Issues,
Clarence C. Crawford*

At least 154 programs run by 14 federal agencies provide about \$25 billion in employment training assistance to out-of-school youth and adults to enhance their skills or employment opportunities. Although well-intended, when taken collectively these programs confuse and frustrate clients and administrators, hamper delivery of services to those in need, and create the potential for duplicate efforts and unnecessary costs. Consolidation of the programs is necessary and should be guided by four principles: simplicity, tailored services, administrative efficiency, and accountability. (T-HEHS-94-109)





OVERHEAD COSTS: UNALLOWABLE AND QUESTIONABLE COSTS CHARGED BY GOVERNMENT CONTRACTORS

Testimony by the Director of Acquisition Policy, Technology, and Competitiveness Issues, David E. Cooper

Despite actions taken to address the problem of unallowable and questionable “overhead” costs, defense contractors continue to bill the government for millions of dollars each year for expenditures for liquor, personal use of automobiles and boats, travel, and entertainment. The government needs to clarify its regulations for selected types of overhead costs, explore innovative reimbursement approaches, and buy more commercial products to move from cost-based contracting toward market-determined prices. (T-NSIAD-94-132)

SMALL BUSINESS ADMINISTRATION: INADEQUATE OVERSIGHT OF CAPITAL MANAGEMENT SERVICES, INC.—AN SSBIC

Failure of the Small Business Administration (SBA) to recognize signs that Capital Management Services, Inc., a specialized small business investment company (SSBIC) in Little Rock, Arkansas, had been operated improperly led to an SBA loss of over \$3 million. David Hale ran the company improperly by making loans to business associates and for real estate purchases, both of which violated SBA regulations. He also took advantage of flexible SBA guidelines for determining socially or economically disadvantaged persons and provided loans to individuals whose eligibility for the program was questionable. (OSI-94-23)

ADDRESSING THE DEFICIT: BUDGETARY IMPLICATIONS OF SELECTED GAO WORK

Persistently high deficit levels and growing debt constrain the government’s ability to meet pressing national needs and to finance investment that is critical to long-term economic growth. Moreover, unmet needs and new spending claims will continue to strain the federal budget. GAO identified options for spending reductions and revenue increases, ranging from the dairy price support system to burden sharing in the Republic of Korea to the collection of gasoline excise taxes. (OCG-94-3)

**AMTRAK: FINANCIAL CONDITION HAS
DETERIORATED AND FUTURE COSTS MAKE RECOVERY
DIFFICULT**

Testimony by the Director of Transportation Issues, Kenneth M. Mead

Despite heavy reliance on federal subsidies, Amtrak may be unable to pay all its debts and provide quality nationwide service because its financial condition has continued to deteriorate. Over the next few years, Amtrak will face difficult and costly challenges that will make it difficult to run a viable intercity network. These range from modernizing its locomotive and passenger rail fleet to negotiating new operating agreements with the freight railroads, which own about 97 percent of the track over which Amtrak operates. (T-RCED-94-155)

**DRINKING WATER: COMBINATION OF STRATEGIES
NEEDED TO BRING PROGRAM COSTS IN LINE WITH
RESOURCES**

Testimony by the Director of Environmental Protection Issues, Peter F. Guerrero

A combination of strategies is needed to help states and communities meet the requirements of the Safe Water Drinking Act. Alternative and cost-effective compliance strategies need to be promoted, regulatory changes that reduce cost burdens without compromising health protection should be considered, additional funding is needed, and activities to prevent contamination of drinking water supplies should receive greater emphasis. (T-RCED-94-152)



April 1994

■ 78 Reports to Congress

■ 32 Testimonies

■ FINANCIAL MANAGEMENT: FINANCIAL CONTROL AND SYSTEM WEAKNESSES CONTINUE TO WASTE DOD RESOURCES AND UNDERMINE OPERATIONS

Testimony by the Comptroller General of the United States, Charles A. Bowsher

Significant shortcomings with the Department of Defense's financial operations persist in five areas, including overpayments to contractors, military payroll, unmatched disbursements, "M" accounts, and the Defense Business Operations Fund. Although the Department's new leadership has expressed a heightened interest in resolving these problems, the problems underscore the need to expand the requirements of the Chief Financial Officers Act to ensure basic accountability and make available facts needed to run the government more efficiently. (T-AIMD/NSIAD-94-154)

■ FOSTER CARE: PARENTAL DRUG ABUSE HAS ALARMING IMPACT ON YOUNG CHILDREN

A comparison of young children in foster care in three states in 1986 and 1991 reveals a large increase in numbers. It also reveals an increasing number who had serious health problems; most of these were prenatally exposed to drugs. Both federal and state expenditures have felt the impact of the growth in the number of young foster care children and the decline in their overall health. The impact on the federal expenditures is compounded because a greater portion of foster care maintenance expenditures for young children shifted to the federal government between 1986 and 1991. (HEHS-94-89)

BLUE CROSS AND BLUE SHIELD: EXPERIENCES OF WEAK PLANS UNDERSCORE THE ROLE OF EFFECTIVE STATE OVERSIGHT

About one in four subscribers to Blue Cross and Blue Shield is covered by a plan in weak or very weak financial condition, the result of either plan mismanagement or state rate-setting and coverage requirements that put some of the plans at a competitive disadvantage. Long-term effects of recent actions to remedy financially troubled plans are as yet unknown, and health care reforms being considered could further strain the financial condition of health insurers. The role of state insurance regulators in monitoring these plans' financial solvency will become increasingly important under reforms being considered. (HEHS-94-71)

UNDERFUNDED PENSION PLANS: FEDERAL GOVERNMENT'S GROWING EXPOSURE INDICATES NEED FOR STRONGER FUNDING RULES

Testimony by the Director of Income Security Issues, Joseph F. Delfico

Despite 1987 legislation intended to accelerate the full-funding of underfunded pension plans, total underfunding in single-employer plans insured by the Pension Benefit Guaranty Corporation increased from \$31 billion in 1990 to over \$50 billion in 1992. Although this increase was due in part to declining interest rates, the trend is cause for concern. Only 40 percent of the plan sponsors subject to the law made increased contributions in 1990 in addition to the minimum funding contributions dictated by the Employee Retirement Income Security Act of 1974. Moreover, those increased contributions were less than 3 percent of the underfunding. (T-HEHS-94-149)



INFANTS AND TODDLERS: DRAMATIC INCREASES IN NUMBERS LIVING IN POVERTY

In the 1980s, the number of poor infants and toddlers increased by 26 percent, and by 1990, over 45 percent of all infants and toddlers in some cities were living in poverty. This trend poses serious challenges to federally funded early childhood programs, which generally provide services to a small percentage of poor and near-poor infants and toddlers. But in light of the demonstrated benefits of some of these programs, federal and state governments may wish to increase their efforts to serve infants and toddlers. (HEHS-94-74)

MILITARY AIRLIFT: THE C-17 PROGRAM UPDATE AND PROPOSED SETTLEMENT

Testimony by Assistant Comptroller General, National Security and International Affairs Division, Frank C. Conahan

The settlement between the Department of Defense and McDonnell Douglas on the C-17 transport plane is not a good deal for the government. As part of the settlement, the Department will waive all future claims against the contractor, accept reduced C-17 performance standards, and pay more for fewer aircraft. The Department needs to determine immediately the minimum number of C-17s required and pursue alternative wide-body aircraft. (T-NSIAD-94-166 and T-NSIAD-94-172)

HEALTH CARE QUALITY: HOW DOES THE UNITED STATES COMPARE WITH OTHER COUNTRIES ON CANCER SURVIVAL AND ACCESS TO BONE MARROW TRANSPLANTATION?

Testimony by Assistant Comptroller General, Program Evaluation and Methodology Division, Eleanor Chelimsky

Any differences in the structure and the financing of the U.S. and Canadian health care systems do not produce clear differences in survival rates for patients suffering from Hodgkin's disease or from breast, colon, or lung cancer. Similarly, the availability of bone marrow transplants used in the treatment of leukemia does not differ significantly between the United States and nine other industrialized countries. (T-PEMD-94-21)

COMMERCIAL PRACTICES: LEADING-EDGE PRACTICES CAN HELP DOD BETTER MANAGE CLOTHING AND TEXTILE STOCKS

At a time when private sector companies are cutting costs by minimizing inventories, the Department of Defense continues to store redundant levels of clothing and textiles. Much of this inventory is old; for about 26 percent of the items, the Department had 10 years of supply on hand. The Department recently began to increase its use of innovative concepts, but progress has been slow. (NSIAD-94-64)

CHEMICAL WEAPONS: ISSUES INVOLVING DESTRUCTION TECHNOLOGIES

*Testimony by the Associate Director for Defense Management and NASA Issues,
David R. Warren*

The most feasible technological alternatives to incinerating chemical weapons are only in the earliest development stages; they are not likely to be fully operational by the December 31, 2004, deadline for the destruction of the U.S. chemical weapons stockpile. Because these alternative technologies are in such early stages of development, cost estimates for them are either nonexistent or unreliable and their performance cannot be compared with the incineration approach now used. (T-NSIAD-94-159)



May 1994

■ 81 Reports to Congress

■ 25 Testimonies

EXECUTIVE GUIDE: IMPROVING MISSION PERFORMANCE THROUGH STRATEGIC INFORMATION MANAGEMENT AND TECHNOLOGY

Today's information systems offer the government unprecedented opportunities to provide high-quality services tailored to the public's changing needs, delivered more effectively, faster, and at lower cost. Innovative approaches to managing information and technology by private and public sector organizations provide many lessons for federal agencies on "best practices" that can enhance the use of technology to improve service, save money, and boost productivity. (AIMD-94-115)



NUCLEAR NONPROLIFERATION: LICENSING PROCEDURES FOR DUAL-USE EXPORTS NEED STRENGTHENING

*Testimony by the Director-in-Charge of International Affairs Issues,
Joseph E. Kelley*

From 1988 to 1992, the U.S. government approved over 1,500 dual-use nuclear licenses for organizations in 8 countries identified as posing potential proliferation concerns. Weaknesses identified in the U.S. review process included inadequate criteria for selecting preclicensing checks and postshipment verifications, ineffective methods for these inspections, and failure to verify government-to-government assurances against nuclear end uses. (T-NSIAD-94-163)

HIGHER EDUCATION: GRANTS EFFECTIVE AT INCREASING MINORITIES' CHANCES OF GRADUATING

*Testimony by the Associate Director for Education and Employment Issues,
Cornelia M. Blanchette*

As college tuition has soared over the past 15 years, grant aid to students has not kept pace. Loans have accounted for an increasing proportion of student aid, even though grant aid is more likely to reduce the probability of dropping out and improve graduation rates for some minorities. The shift to loans may initially save federal funds; grants, however, may be more cost-effective if they encourage students to finish their education and, as a result, increase their earning potential. (T-HEHS-94-168)



TAX GAP: MANY ACTIONS TAKEN, BUT A COHESIVE COMPLIANCE STRATEGY NEEDED

The Internal Revenue Service (IRS) estimates that the difference between what corporations and individuals owed and what they voluntarily paid grew from \$76 billion in 1981 to \$127 billion in 1992. While eliminating the tax gap is unlikely, IRS' efforts to develop a compliance strategy and compliance programs, including its efforts to develop statistics to identify the nature of noncompliance, should continually improved. (GGD-94-123)

FINANCIAL DERIVATIVES: ACTIONS NEEDED TO PROTECT THE FINANCIAL SYSTEM

Gaps and weaknesses in the regulation of, the accounting for, and the management of derivative product activities pose potential threats to the stability of the U.S. financial system. Private sector actions to better manage derivatives risks, as well as additional federal oversight of major dealers, could help fill these gaps. Better disclosure, more complete accounting rules, and further cooperation among regulators to share information, set appropriate capital standards, and provide comprehensive examination of major dealers' activities would help resolve the weaknesses. (GGD-94-133)

LEAD-BASED PAINT POISONING: CHILDREN IN SECTION 8 TENANT-BASED HOUSING ARE NOT ADEQUATELY PROTECTED

Tests by local health agencies showed that 7 of the 11 section 8 tenant-based residences selected for review contained lead-based paint hazards. Although federal regulations require public housing authorities to test the paint in homes of children with elevated lead levels and to require corrective actions, the four public housing authorities responsible for these residences did not know whether the testing was being done. In addition, local health agencies did not routinely determine whether the children with elevated lead levels whom they had identified resided in section 8 housing; therefore, they did not notify the responsible housing authorities of the children's condition or of the testing that had been performed. (RCED-94-137)

RICE PROGRAM: GOVERNMENT SUPPORT NEEDS TO BE REASSESSED

Reforms in the rice program have not reduced overall government costs since the early 1980s. Instead, government costs have remained high and producers' dependency on the program has increased. Given current conditions for the rice industry, this situation is not likely to improve over the foreseeable future. With the upcoming reauthorization of the farm bill, Congress may want to consider options that would help the rice industry rely more on the marketplace than on the government for its income. (RCED-94-88)



MULTILATERAL ASSISTANCE: ACCOUNTABILITY FOR U.S. CONTRIBUTIONS TO THE WORLD FOOD PROGRAM

Testimony by the Director of International Affairs Issues, Harold J. Johnson

Intended as food relief for countries such as Ethiopia, Pakistan, and Afghanistan, millions of dollars of U.S. commodities donated through the Agency for International Development (AID) to the United Nations World Food Program have been lost, stolen, or mishandled due to lax accountability and internal controls. The program is exempt from accountability requirements that AID places on other program sponsors, and AID did not follow its own regulations governing its relationship with the program. (T-NSIAD-94-174)

June 1994

■ 84 Reports to Congress

■ 22 Testimonies

FINANCIAL MANAGEMENT: CFO ACT IS ACHIEVING MEANINGFUL PROGRESS

Testimony by the Comptroller General of the United States, Charles A. Bowsher

The Chief Financial Officers (CFO) Act of 1990, which requires annual financial reports at selected federal agencies, has helped identify management inefficiencies and weaknesses, expose gaps in how government assets are safeguarded, uncover possible illegal activity, and identify actual and potential savings totaling hundreds of millions of dollars. Because the act's provisions are so relevant to improving government operations, GAO strongly supports expanding its requirements to the 23 major agencies and the government as a whole. (T-AIMD-94-149)

SINGLE AUDIT: REFINEMENTS CAN IMPROVE USEFULNESS

The single audit process, formalized in 1984 legislation, has strengthened state and local governments' financial management practices, thereby enhancing the accountability for federal financial assistance provided to these entities. But several issues limit the usefulness of single audit reports. For example, criteria for selecting entities for single audits and programs that must be tested need to be changed, and access to single audit reports by oversight officials and program managers needs to be improved. (AIMD-94-133)



SUPERFUND: REAUTHORIZATION AND RISK PRIORITIZATION ISSUES

*Testimony by Assistant Comptroller General, Resources, Community, and Economic
Development Division, Keith O. Fultz*

The pending legislation to reauthorize the Superfund provides significant improvements over existing law. It contains provisions to improve the pace and the consistency of cleanups, involve the public earlier and to a greater extent, and reduce transaction costs. Additional opportunities exist, however, to use tax dollars more efficiently. For example, Congress should amend the legislation to enhance cost-recovery efforts and to emphasize ranking hazardous waste sites so that resources are targeted to the worst sites first. (T-RCED-94-250)

WORKPLACE REGULATION: INFORMATION ON SELECTED EMPLOYER AND UNION EXPERIENCES

Although the various employers and union representatives interviewed generally supported the need for workplace regulations, they expressed concern with the overall regulatory process and with whether the regulatory goals were being achieved. Those interviewed called for a change in approach by the responsible government agencies to one of service orientation, which would provide improved access and educational assistance to employers, workers, and unions and permit more input into standard-setting and enforcement efforts. (HEHS-94-138, Volumes I and II)

HEALTH REFORM: PURCHASING COOPERATIVES HAVE AN INCREASING ROLE IN PROVIDING ACCESS TO INSURANCE

*Testimony by the Associate Director for National and Public Health Issues,
Mark V. Nadel*

Pooled purchasing by large numbers of small organizations, which band together to reduce their administrative expenses, consolidate their insurance risk, and increase their clout to get a better deal, is becoming increasingly accepted, and criticism of the cooperatives as too regulatory and too bureaucratic has been overstated. If cooperatives become a national vehicle for expanding insurance coverage, however, Congress may want to give greater attention to the selection, the composition, and the accountability of cooperative governing boards. (T-HEHS-94-196)

AMERICANS WITH DISABILITIES ACT: EFFECTS OF THE LAW ON ACCESS TO GOODS AND SERVICES

Both accessibility for persons with disabilities and owners' and managers' awareness about the act increased from January 1992 to April 1993. Enough areas of concern remain, however, to suggest a need for continuing educational outreach and technical assistance to business and government agencies covered by the act, as well as continued monitoring by Congress. For example, half of the nearly 600 businesses and government facilities visited by GAO had failed to remove architectural barriers or develop plans to do so. (PEMD-94-14)

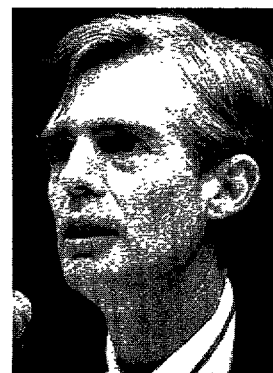
TAX POLICY: TAX EXPENDITURES DESERVE MORE SCRUTINY

As the federal government increasingly faces hard choices to reduce the deficit and use resources wisely, all federal expenditures and subsidies should be carefully considered. But tax expenditures—revenues forgone through preferential provisions in the tax code, such as deductions, exemptions, and credits—are not systematically considered in the budget process; trade-offs between tax expenditures and federal programs and mandates are not explicitly considered. (GGD/AIMD-94-122)

INTERSTATE COMMERCE COMMISSION: TRANSFERRING ICC'S RAIL REGULATORY RESPONSIBILITIES MAY NOT ACHIEVE DESIRED EFFECTS

Testimony by the Director of Transportation Issues, Kenneth M. Mead

ICC continues to perform several rail functions that remain necessary as long as there are shippers that have access only to railroads to carry their goods and market-dominant railroads. Although these functions could be transferred to the Department of Transportation or the Department of Justice, it is not clear whether the benefits would be significant, and the potential exists for the loss of independence in the decision-making process. Moreover, there is more potential for budgetary savings in the motor carrier area. (T-RCED-94-222)





NUCLEAR REGULATION: ACTION NEEDED TO CONTROL RADIOACTIVE CONTAMINATION AT SEWAGE TREATMENT PLANTS

Testimony by the Associate Director for Energy and Science Issues, Jim Wells

Even though at least nine cases of radioactive contamination have been discovered at sewage treatment plants over the last 10 years, the Nuclear Regulatory Commission (NRC) has been slow to determine the extent of the problem nationwide and its potential impact on the health and the safety of treatment plant workers and the public. Although the NRC believes that no imminent health risk exists, both the NRC and the Environmental Protection Agency agree that further study is needed. (T-RCED-94-247)

July 1994

■ 66 Reports to Congress

■ 15 Testimonies

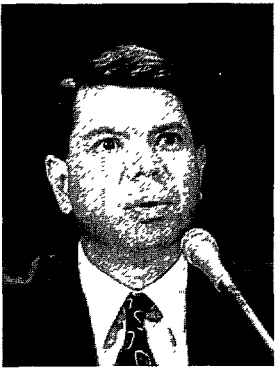
VACCINES FOR CHILDREN: MAJOR IMPLEMENTATION HURDLES REMAIN

*Testimony by the Director of Program Evaluation in Physical Systems Areas,
Kwai-Cheung Chan*

Plans to implement the Vaccines for Children program by October 1, 1994, as required by law, are behind schedule. The Centers for Disease Control timeline is very ambitious, and several tasks integral to fully implementing the program are experiencing delays, including awarding contracts to vaccine manufacturers, developing plans for provider enrollment, and designing a vaccine distribution service to ensure that the vaccine will not lose potency during shipment. (T-PEMD-94-29)

BUDGET POLICY: ISSUES IN CAPPING MANDATORY SPENDING

A spending cap on mandatory programs would achieve savings. Such a cap, however, is unlikely to affect longer term growth trends in these programs until issues that drive spending on them are addressed. Mandatory program spending is driven not by appropriations, but by eligibility and benefit formulas that a sequester may not change. (AIMD-94-155)



FINANCIAL AUDITS: CFO IMPLEMENTATION AT IRS AND CUSTOMS

Testimony by Assistant Comptroller General, Accounting and Information Management Division, Gene L. Dodaro

For fiscal year 1993, GAO was again unable to express opinions on the Internal Revenue Service's and the Customs Service's financial statements because of significant unresolved financial management problems. But improvements in financial management operations are being made at these agencies as a result of the Chief Financial Officers Act. This progress has been achieved largely because both agencies are committed to developing reliable financial information. (T-AIMD-94-164)

THE GENERAL AGREEMENT ON TARIFFS AND TRADE: URUGUAY ROUND FINAL ACT SHOULD PRODUCE OVERALL U.S. ECONOMIC GAINS

The Uruguay Round Final Act resulting from the negotiations of the General Agreement on Tariffs and Trade (GATT) generally achieved the objectives established by Congress to benefit U.S. trading interests. If approved, it would reduce tariff and nontariff barriers to further open markets, create stronger dispute settlement procedures, and strengthen GATT as an institution. Moreover, it would increase international trade and U.S. national income, although some sectors of the U.S. economy would suffer from increased foreign competition. (GGD-94-83a and GGD-94-83b)

FEDERAL JUDICIAL SECURITY: COMPREHENSIVE RISK-BASED PROGRAM SHOULD BE FULLY IMPLEMENTED

The environment in which the federal judiciary operates is becoming increasingly more dangerous. Key aspects of a comprehensive on-site judicial security program recommended in 1982, however, are not in place, and off-site security issues, which are a greater concern to most judges, have not been addressed. (GGD-94-112)

FUTURE YEARS DEFENSE PROGRAM: OPTIMISTIC ESTIMATES LEAD TO BILLIONS IN OVERPROGRAMMING

By overestimating savings and understating costs, the Department of Defense has included in its Future Years Defense Program for fiscal years 1995-99 more programs than spending plans can support. This overprogramming, which could exceed \$150 billion, is not unprecedented. Since 1984, GAO has consistently disclosed that the Department employs a systematic bias toward overly optimistic planning assumptions, the use of which has led to program instability, costly program stretch-outs, and program terminations. (NSIAD-94-210)

FEDERAL LANDS: FEES FOR COMMUNICATIONS SITES ARE BELOW FAIR MARKET VALUE

*Testimony by the Associate Director for Natural Resources Management Issues,
John H. Anderson, Jr.*

Fees being charged for the communications sites on federal lands, managed by the U.S. Forest Service and the Bureau of Land Management, are in most instances significantly below fair market value. Charging fees that reflect fair market value would increase federal revenues by over 500 percent, from about \$4 million to \$23 million a year. In addition, the current low federal fees may be depressing the market value of state communications sites and reducing the funds that states and counties receive from sharing in the revenues generated by the national forests. (T-RCED-94-262)



FINANCIAL STATUS: DISTRICT OF COLUMBIA FINANCES

Testimony by the Director of Audit Support and Analysis, John W. Hill, Jr.

The District of Columbia faces unresolved long-term financial issues and continual short-term financial crises. Unless it can implement policy changes, it may be forced to borrow from the U.S. Treasury. A contributing factor is that past budgets have been optimistic, overestimating revenues and underestimating expenses. (T-AIMD-94-158)





FEDERALLY ASSISTED HOUSING: CONDITION OF SOME PROPERTIES RECEIVING SECTION 8 PROJECT-BASED ASSISTANCE IS BELOW HOUSING QUALITY STANDARDS

*Testimony by the Director of Housing and Community Development Issues,
Judy A. England-Joseph*

Conditions in some section 8 project-based assisted housing clearly violated the Department of Housing and Urban Development's (HUD) housing quality standards. In the distressed properties, families lived in units with exposed electrical wiring, holes in walls and ceilings, inoperative smoke detectors, and roach and rodent infestation. Although HUD has various tools to ensure owners maintain assisted properties, it has used these tools sparingly and inconsistently. (T-RCED-94-273)

SPACE STATION: UPDATE ON THE IMPACT OF THE EXPANDED RUSSIAN ROLE

Contrary to claims that Russian participation in the National Aeronautics and Space Administration's (NASA) proposed international space station would save \$2 billion, GAO's analysis shows that Russian involvement would increase space station funding requirements by \$400 million due to lower-than-anticipated Russian contributions of hardware. Russian participation would also increase funding requirements for other NASA programs that support the space station by at least an estimated \$1.4 billion. (NSIAD-94-248)

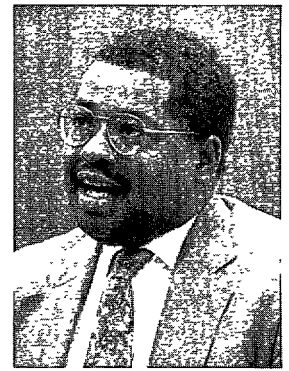
RURAL DEVELOPMENT: PATCHWORK OF FEDERAL PROGRAMS NEEDS TO BE REAPPRAISED

The current federal approach to providing assistance through 35 federal economic development programs is generally inefficient in helping rural areas adjust to changing economic conditions. Therefore, Congress may wish to make short-term changes in the way assistance is delivered and develop and implement a more comprehensive and cohesive federal strategy that would, over the long term, substantially change the current approach. (RCED-94-165)

FINANCIAL MANAGEMENT: STATUS OF CFO ACT IMPLEMENTATION AT THE DEPARTMENT OF THE TREASURY

Testimony by the Director of Civil Audits, Gregory M. Holloway

In implementing the Chief Financial Officers Act, the Department of the Treasury has acknowledged the serious and long-standing problems with the financial management systems and related internal controls at several of Treasury's bureaus. Because the activities of the bureaus have a tremendous impact on federal government operations, Treasury must continue to enhance the effectiveness of its chief financial officer structure at both the department and the bureau level, invest in training for its financial management personnel, and correct the serious problems identified. (T-AIMD-94-157)



August 1994

■ 77 Reports to Congress

■ 6 Testimonies

HEALTH INSURANCE FOR THE ELDERLY: OWNING DUPLICATE POLICIES IS COSTLY AND UNNECESSARY

An estimated 3 million elderly Medicare beneficiaries owned multiple supplemental health insurance policies and paid about \$1.8 billion in 1991 for policies that probably involved duplicate coverage. Many had supplemental coverage through employer-sponsored plans, and the 192 plans reviewed usually provided comprehensive coverage. About 500,000 other Medicare beneficiaries, who were also eligible for Medicaid because of limited incomes, spent about \$190 million on unnecessary supplemental insurance. (HEHS-94-185)

MEDICAID: STATES USE ILLUSORY APPROACHES TO SHIFT PROGRAM COSTS TO FEDERAL GOVERNMENT

States are using misleading financial arrangements to maximize federal Medicaid contributions to their health care providers. Such transactions enabled three states reviewed by GAO to obtain about \$800 million in federal funds without committing their share of matching funds, thereby effectively increasing the federal share of Medicaid expenditures. Congress should act to curtail such arrangements including prohibiting Medicaid payments that exceed costs to any government-owned facility. (HEHS-94-133)

DRUG CONTROL: INTERDICTION EFFORTS IN CENTRAL AMERICA HAVE HAD LITTLE IMPACT ON THE FLOW OF DRUGS

The supply of drugs entering the United States through Central America remains virtually uninterrupted despite years of U.S. drug interdiction efforts. Drug traffickers have adjusted their modes of operation to evade U.S. air interdiction efforts and are increasingly using sea and land transportation to move drugs through Central America to the United States. Central American nations have neither the resources nor the institutional capability to address the new drug-trafficking modes and depend heavily on U.S. assistance. Various U.S. government agencies are working with some of the countries on a number of small-scale projects, but the outcome of these efforts is uncertain. (NSIAD-94-233)

OPERATION DESERT STORM: POTENTIAL FOR REPRODUCTIVE DYSFUNCTION IS NOT BEING ADEQUATELY MONITORED

Testimony by the Director of Program Evaluation in Physical Systems Areas, Kwai-Cheung Chan

Since returning from the Persian Gulf, many veterans have complained of various health problems, including reproductive problems. It is now known that U.S. troops were exposed to a wide variety of potentially hazardous substances before, during, and after the war. But studies of reproductive dysfunction among returning troops by the military and others have been incomplete and poorly designed. As a result, questions remain about the extent of exposure to reproductive toxicants and the range of problems among U.S. military personnel. (T-PEMD-94-31)



September 1994

■ 76 *Reports to Congress*

▣ 16 *Testimonies*

■ VETERANS' HEALTH CARE: IMPLICATIONS OF OTHER COUNTRIES' REFORMS FOR THE UNITED STATES

Although significant differences exist in veterans' health benefits in the United States, Australia, Canada, Finland, and the United Kingdom, the evolution of the latter four countries' veterans' health care systems provides useful insights for the United States: maintaining a direct delivery system is not the only option for preserving or expanding veterans' health benefits, and increasing freedom to choose between Department of Veterans Affairs (VA) and non-VA providers will likely result in significant declines in demand for care in veterans facilities. (HEHS-94-210BR)

■ U.S. POSTAL SERVICE: LABOR-MANAGEMENT PROBLEMS PERSIST ON THE WORKROOM FLOOR

Long-standing labor-management problems in the Postal Service have contributed to a poor quality of work life for postal employees and higher mail-processing and delivery costs. GAO attributes these problems to an autocratic management style, adversarial employee and union attitudes, and performance management systems that do not reward work groups for teamwork or differentiate between good workers and poor ones. (GGD-94-201A and GGD-94-201B)

TAX ADMINISTRATION: COMPLIANCE MEASURES AND AUDITS OF LARGE CORPORATIONS NEED IMPROVEMENT

Due to the complexity of the tax law and the conflicting incentives that Internal Revenue Service (IRS) employees face in administering the law, it is impossible to determine the proper amount of tax that should be collected from the nation's 1,700 largest corporations through the Coordinated Examination Program (CEP). Historically, IRS has collected 22 percent of the additional taxes recommended in CEP audits. Although it is impossible to know what the proper amount should be, it is reasonable to assume that collecting 22 cents per dollar leaves room for improvement either in the audit recommendation process or in the appeals process or both. (GGD-94-70)

SOCIAL SECURITY: RAPID RISE IN CHILDREN ON SSI DISABILITY ROLLS FOLLOWS NEW REGULATIONS

The number of children receiving Supplemental Security Income disability benefits more than doubled from about 297,000 in 1989 to about 771,000 in 1993. Increases in the number of awards for mental impairments accounted for more than two-thirds of the growth in awards. The dramatic growth in these awards was thought to be attributed to requirements imposed by the 1990 *Sullivan v. Zebley* Supreme Court decision. GAO found, however, that about 70 percent of these awards went to children whose impairments were severe enough to qualify on the basis of medical standards alone, without the need for an additional functional assessment that was mandated by the Supreme Court. (HEHS-94-225)

SECURITIES MARKETS: ACTIONS NEEDED TO BETTER PROTECT INVESTORS AGAINST UNSCRUPULOUS BROKERS

*Testimony by the Director of Financial Institutions and Markets Issues,
James L. Bothwell*

Securities brokers who have breached sales practice rules or have histories of repeated sales practice violations can harm investors financially and erode public confidence in the securities market. Although the exact number of such unscrupulous, or rogue, brokers is unknown, of almost 470,000 active brokers, about 10,000 had at least 1 formal disciplinary action taken against them for various violations. To better protect investors from these brokers, surveillance, detection, and disciplinary practices need to be strengthened. (T-GGD-94-190)





HUMAN EXPERIMENTATION: AN OVERVIEW ON COLD WAR ERA PROGRAMS

Testimony by Assistant Comptroller General, National Security and International Affairs Division, Frank C. Conahan

During World War II and the Cold War, hundreds of thousands of human test subjects were used in radiological, chemical, and biological research conducted by U.S. national security agencies. Some people suffered immediately, but in other cases, adverse health problems were not discovered until 20 to 30 years later. For these people to pursue claims against the government has proven difficult because they cannot prove that they participated in the experiments or that their injuries or other health effects resulted from the testing.

(T-NSIAD-94-266)

B-2 BOMBER: COST TO COMPLETE 20 AIRCRAFT IS UNCERTAIN

The cost to complete 20 B-2 aircraft is uncertain because significant development, testing, production, and modification efforts remain. Although the Air Force believes the program can be completed within the total program cost limitation of \$44.7 billion imposed by Congress, it has not documented its analysis, assumptions, or rationale for the estimate. GAO believes that major uncertainties surround completion of the program within the cost limitation, in part because about 60 percent of the planned flight test hours have not been completed and testing to date has identified problems that have not been corrected. (NSIAD-94-217)

1995 BUDGET: POTENTIAL REDUCTIONS TO THE OPERATION AND MAINTENANCE PROGRAMS

The fiscal year 1995 budget request for Department of Defense Operation and Maintenance programs could be reduced by \$4.5 billion. The largest potential reductions, each for over \$500 million, are associated with better management of spare and repair parts inventories, funds requested for training that are not used for training purposes, overstated civilian personnel requirements, and excessive unobligated balances from prior years' appropriations. Another potential reduction of about \$470 million is associated with improved maintenance practices that the services could adopt. (NSIAD-94-246BR)

HEALTH CARE REFORM: "REPORT CARDS" ARE USEFUL BUT SIGNIFICANT ISSUES NEED TO BE ADDRESSED

Report cards can be a useful tool to educate potential health care plan subscribers. Most experts believe that publishing cost and quality indicators and other information comparing performance of competing plans is a means of preserving the quality while lowering the cost of health care. The experts disagree, however, about the type and the amount of information to be published because the data sources and indicators may not be reliable or valid and may not reflect the needs of some users. (HEHS-94-219)

INFORMATION SUPERHIGHWAY: ISSUES AFFECTING DEVELOPMENT

Competition in the long-distance telephone market has led to large investments in the long-distance infrastructure, which have provided the capacity likely to support the interstate portion of the information superhighway. Similar increases in the local infrastructure's capacity are needed to allow the services to reach homes, businesses, and schools but are expected to be more costly. Some upgrades have occurred through technological advances and emerging competition at the local level. Although Congress is considering legislation that would increase competition, which would accelerate investment in the local infrastructure, much of the debate has focused on how to protect consumers from anticompetitive behavior if it occurs during the transition to increased competition. (RCED-94-285)

FOOD SAFETY: FUNDAMENTAL CHANGES NEEDED TO IMPROVE MONITORING OF UNSAFE CHEMICALS IN FOOD

Testimony by the Director of Food and Agriculture Issues, John W. Harman

As continually reported for over 20 years, the federal system designed to ensure that food is free from unsafe levels of chemicals needs significant improvement. Suggestions include enacting a uniform set of food safety laws, revising the nature of the government's role for ensuring food safety by moving away from end-product testing to preventing contamination from occurring, and considering the feasibility of requiring that all food eligible for import to the United States be produced under equivalent food safety systems. (T-RCED-94-311)



OVERVIEW OF OPERATIONS AND FINANCIAL MANAGEMENT

This overview includes

- a description of GAO and its mission,
- a status report on some recent investments in productivity,
- a discussion of GAO's performance information,
- a review of quality control efforts and GAO's external Audit Advisory Committee,
- a commentary on GAO's financial resources and results of operations,
- management's assessment of internal controls, and
- a description of the scope of the audit of GAO's 1994 principal statements.

Immediately following the overview are GAO's principal statements for fiscal years 1994 and 1993, GAO's Audit Advisory Committee's report, and the independent auditors' report.

GAO AND ITS MISSION

GAO assists Congress in its legislative oversight of the executive branch. Its mission is to encourage honest, efficient management and full accountability throughout the government. GAO accomplishes that mission and serves the public interest by providing Congress, other policymakers, and the public with accurate information, unbiased analyses, and objective recommendations on the use of public resources.

A commitment to quality is the single most important principle governing our work. GAO also highly values its people and the diversity and skills they bring to serve Congress and the public. GAO staff concentrate on specific issues that enable

them to become highly knowledgeable about the agencies and programs they audit. By maintaining expertise in key areas of interest, GAO can respond quickly and comprehensively to requests from Congress.

About 77 percent of GAO's work during fiscal year 1994 was done at the specific request of Congress. GAO is required to do work requested by committee chairmen; as a matter of policy, GAO assigns equal status to requests from ranking minority members. To the extent possible, GAO also responds to requests from individual members. Finally, GAO undertakes assignments independently in accordance with its basic legislative responsibilities.

GAO's work is managed through six divisions. The issues examined by GAO span the breadth of national concerns, including health care costs, national security, energy, the safety and soundness of financial institutions, protection of the environment, education, the space program, transportation, tax administration, income security, disaster assistance, financial management and accountability, and many others.

While audits and evaluations are the most visible aspects of GAO's work and absorb the largest share of its resources, GAO has other important functions as well. GAO prescribes accounting standards for the entire federal government in conjunction with the Office of Management and Budget (OMB) and the Department of the Treasury, evaluates accounting systems and controls used by executive agencies, and issues generally accepted auditing standards for all levels of government and for independent public accountants that audit government entities. GAO also settles claims against the federal government when a settlement made by an executive agency is appealed. Finally, GAO issues legal decisions on matters involving government revenues and expenditures, such as protests against the award of federal government contracts.

DOWNSIZING AND CONSOLIDATION OF GAO OPERATIONS

GAO understands the financial crisis our nation faces and has been doing its part to help the legislative branch reduce its size and control its costs. In fiscal year 1992, GAO implemented a plan, in close cooperation with its appropriations committees, to reduce the size of GAO. By the end of fiscal year 1994, GAO had already reduced its size by over 10 percent and is now at its lowest staff level since 1970.

To manage this downsizing effectively, GAO imposed a hiring freeze in fiscal year 1992. GAO also sought and obtained the authority to offer separation incentive payments to staff that volunteered to retire from or leave GAO from October 1 through December 31, 1993. Over 400 staff members took advantage of this incentive plan and were paid \$13.5 million. Using this systematic approach, GAO has reduced its size and at the same time avoided major disruptions to its operations.

GAO has also reduced its field structure. When Congress directed GAO to review its field structure in 1994, GAO established an executive level steering committee to determine where GAO should locate its field staff to do future work. After reviewing information developed by the committee, GAO decided to close or consolidate the following field offices:

- The Boston and New York offices were consolidated into a single Northeast Region in May 1994.
- The Philadelphia and Albany offices were closed in August 1994.
- The Indianapolis office is scheduled to close in December 1994.
- The San Antonio, Oklahoma City, Albuquerque, and Honolulu offices are scheduled to close by mid-1995.
- The Cincinnati office is scheduled to close by mid-1996, with its Dayton suboffice remaining open.

After completing these actions, GAO will have closed 20 of the 40 field offices it had in the early 1980s.

INVESTMENTS TO IMPROVE PRODUCTIVITY

In addition to its plans to further streamline its organizational structure, GAO continued to emphasize improvement of its operations. GAO increased staff effectiveness and organizational efficiency in the following ways:

- Expanded a local area network pilot, both in headquarters and in the field, and began testing ways to use the network to streamline basic work processes, enhance capabilities, and improve overall productivity and efficiency in auditing and evaluating agencies' programs.
- Implemented a modern telecommunications system that includes voice messaging and videoconferencing capabilities to reduce travel costs and the time it takes to do GAO's work.
- Focused more intensively on improving work processes through a quality management program to identify more efficient ways to better serve GAO's customers.
- Changed GAO's travel advance system, reducing outstanding advances by 53 percent, and initiated a project to reimburse employees for travel expenses electronically. As a result, employees will be reimbursed more quickly, and the need for lengthy research of lost or stolen checks will be greatly reduced.
- Decentralized certain financial management functions to the field offices.
- Began implementing an Electronic Certification System to permit faster payment of invoices than is currently possible.

-
- Continued the removal of asbestos and the renovation of the 42-year-old GAO building, including the completion of the renovation of the fourth floor.

PERFORMANCE INFORMATION

GAO carefully monitors its performance, seeking to improve its services and efficiency. Several important performance measures are discussed earlier in this report, such as the measurable financial benefits resulting from GAO's work, the number of products produced, and the number of testimonies delivered. Additional GAO performance measures are addressed in a separate publication entitled *1994 Annual Report of Key Performance Indicators*. GAO's ongoing quality management initiatives are expected to lead to further refinements and improvements in GAO's measurement system.

Other publications provide summaries of GAO's work and the status of its recommendations, including *Abstracts of Reports and Testimony: Fiscal Year 1994*; *Index of Reports and Testimony: Fiscal Year 1994*; *Supplement to the Comptroller General's 1994 Annual Report*, which summarizes GAO staff assigned to congressional committees during fiscal year 1994; and the *Annual Report to the Chairmen, House and Senate Committees on Appropriations, on the Status of Open Recommendations*.

QUALITY CONTROLS

Quality is the hallmark of GAO's work. To ensure that GAO maintains a high level of quality, management maintains a quality control program and seeks advice and evaluation from outside sources.

Through an internal review program, GAO ensures its quality control policies and procedures are providing reasonable assurance that its audit and evaluation work conforms with applicable professional requirements, including government auditing standards. The Comptroller General establishes auditing standards for all levels of government. The standards were updated in 1994 based on the advice of the Government Auditing Standards Advisory Council.

GAO's Quality Control Review Board provides external perspectives and advice on the effectiveness of GAO's assessments of the quality of its audit and evaluation work. The Board meets periodically, confers with the Comptroller General, and provides advice on GAO's products and future work. The Board is comprised of the following distinguished individuals from outside GAO:

- Elliot L. Richardson (Chairman) is an attorney with Milbank, Tweed, Hadley & McCloy; former Secretary of Commerce, Defense, and Health, Education, and Welfare; former Attorney General; former Under Secretary of State; and former Ambassador-at-Large.

■ John C. Burton is a certified public accountant (CPA) and the Arthur Young Professor of Accounting at Columbia University, former Chief Accountant of the Securities and Exchange Commission, and former Dean of the Graduate School of Business at Columbia University.

■ David F. Linowes is a CPA and the Boeschstein Professor Emeritus and professor of political economy and public policy at the University of Illinois. He is also the former Chairman of the President's Commission on Privatization; Chairman, Presidential Commission on the Nation's Energy Resources; Chairman, Federal Privacy Protection Commission; and National Partner, Laventhol & Horwath.

■ John Rhineland is an attorney with Shaw, Pittman, Potts, and Trowbridge; former Under Secretary of the Department of Housing and Urban Development; and former General Counsel of the Department of Health, Education, and Welfare. He has also held other legal positions, including adviser to the SALT I delegation, the Department of State, and the Secretary of the Navy.

Periodic congressional oversight is crucial to the effective operation of any agency, and it is particularly important to GAO because of its significant role in serving Congress. In late October 1993, the House Committee on Government Operations held an oversight hearing on GAO's operations. Also in 1993, the Senate Committee on Governmental Affairs contracted with the National Academy of Public Administration to do a broad review of GAO. In a report on its review, released in October 1994, the Academy made several recommendations that GAO is using to improve its operations. The Committee has indicated that it will use the report as a basis for oversight hearings in the next Congress.

AUDIT ADVISORY COMMITTEE

In addition to the external Quality Control Review Board, which counsels GAO on its audit and evaluation work, the Comptroller General established an external group in late 1992 to advise GAO on its internal financial operations and controls. The Audit Advisory Committee, which met three times during the year, discusses, reviews, and reports to the Comptroller General on the effectiveness of GAO's (1) financial reporting and auditing processes, (2) internal controls over financial operations, and (3) processes to ensure compliance with selected provisions of applicable laws and regulations that could significantly affect GAO's operations. The Committee is comprised of three distinguished individuals from outside GAO:

■ Sheldon S. Cohen (Chairman) is a CPA and an attorney with Morgan, Lewis & Bockius; former Commissioner and Chief Counsel of the Internal Revenue Service; and Secretary and Trustee of the National Academy of Public Administration.

■ Alan B. Levenson is an attorney with Fulbright & Jaworski and a former senior official at the Securities and Exchange Commission.

■ Katherine D. Ortega is a CPA, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and former member of the President's Advisory Committee on Small and Minority Business.

FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

The cost of operating GAO during fiscal years 1994 and 1993 was about \$429 million and \$436 million, respectively. More than 97 percent of its operations were financed through appropriations from Congress. The remainder came from reimbursements from other government agencies, including reimbursements for financial audits done by GAO. The percentage of operating expenses financed by appropriations has been about the same for the last 5 years.

During fiscal year 1994, expenses for salaries and related benefits totaled \$330 million, or 77 percent of GAO's operating expenses. The remaining 23 percent included travel, rent, utilities, automated data processing, and other items.

MANAGEMENT REPORT ON INTERNAL CONTROLS

GAO is committed to fulfilling the internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. GAO's internal control structure, which includes controls over financial reporting, is designed to provide reasonable assurance that

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- revenues and expenditures applicable to GAO's operations are properly recorded and accounted for to enable GAO to prepare accounts and reliable financial reports and to maintain accountability over its assets.

GAO management assesses compliance with its controls through a series of comprehensive internal reviews, applying the evaluation criteria in OMB's guidance (Circular A-123, Internal Control Systems, and Circular A-127, Financial Management Systems) for implementing FMFIA. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken promptly to correct deficiencies as they are identified. It should be noted that any internal control structure has inherent limitations, including the possibility of the circumvention or overriding of controls.

GAO has assessed its internal control structure as of September 30, 1994, based on criteria for effective internal controls in the federal government mentioned above. On the basis of this assessment, GAO believes that it has an effective internal control structure in place as of September 30, 1994.

GAO's independent auditors have been asked to provide

- an opinion on GAO's assertion on the internal control structure over financial reporting and
- a report citing any material conflicts between the more comprehensive GAO report on internal controls dated December 15, 1994, voluntarily prepared under FMFIA, and the results of their examination of GAO's assertion.


1994 FMFIA IMPROVEMENTS

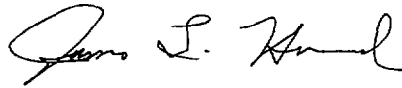
During the year, GAO management improved the administration of certain trust funds and the system for tracking its recommendations in reports to Congress. GAO took steps to improve the operation and management of two trust funds: (1) Davis-Bacon Act receipts and payments and (2) assets of American citizens who die abroad. Internal controls over the trust funds were substantially strengthened and documented with additional improvements to take effect during 1995. Also in 1994, GAO updated and revised its policies and procedures to follow up on the implementation of recommendations made to Congress. These improvements ensure that follow-up activities are appropriate and properly documented and that key recommendations receive special emphasis.

GAO'S 1994 PRINCIPAL STATEMENTS

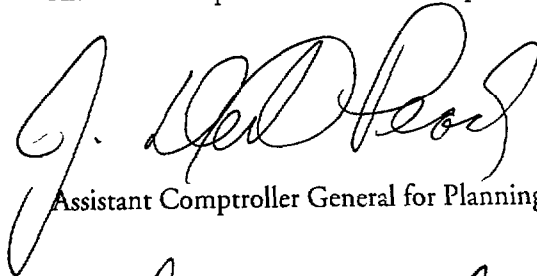
The accompanying principal statements summarize GAO's financial position, disclose the cost of operations and the changes in net position during fiscal years 1994 and 1993, present all significant cash flows during the 2 fiscal years, and provide a comparison of budget and actual expenses. The basis of accounting used for the principal statements is described in the notes to those statements. While GAO is not subject to the Chief Financial Officers Act of 1990 or FMFIA, it is fully committed to the principles and objectives of both acts and has elected to comply with their requirements.

The audit of the statements was performed by the independent auditors KPMG Peat Marwick LLP. The independent auditors' report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the principal statements.

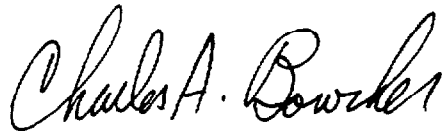




Assistant Comptroller General for Operations



Assistant Comptroller General for Planning and Reporting



Comptroller General of the United States

PRINCIPAL STATEMENTS

U.S. GENERAL ACCOUNTING OFFICE STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 1994 AND 1993

<i>Dollars in Thousands</i>	1994	1993
Assets		
Entity Assets		
Funds with the U.S. Treasury	\$68,819	\$76,517
Travel and other advances	203	998
Accounts receivable	7,410	191
Supplies inventory	454	490
Property and equipment, net	58,535	45,058
Total entity assets	135,421	123,254
Non-Entity Assets		
Accounts receivable	—	2,296
Total non-entity assets	—	2,296
Total Assets	\$135,421	\$125,550
Liabilities		
Liabilities Covered by Budgetary Resources		
Salaries and benefits	\$11,924	\$11,432
Accounts payable	18,068	18,402
Employee travel	1,442	1,274
Other liabilities	—	2,812
Total liabilities covered by budgetary resources	31,434	33,920
Liabilities Not Covered by Budgetary Resources		
Accrued annual leave	27,920	29,691
Workers compensation	10,714	7,770
Comptrollers' General retirement plan	2,116	1,899
Capital leases	845	679
Severance pay	389	—
Total liabilities not covered by budgetary resources	41,984	40,039
Total Liabilities	\$73,418	\$73,959
Net Position	62,003	51,591
Total Liabilities and Net Position	\$135,421	\$125,550

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1994 AND 1993

<i>Dollars in Thousands</i>	<i>1994</i>	<i>1993</i>
Operating Expenses by Program Area		
National Defense, Security and International Relations, and Other Related Issues	\$94,524	\$96,484
Energy, Agriculture, Environment, Housing, Transportation, and Natural Resources Issues	83,156	84,234
Financial Audits, Systems, Information Management, and Technology Issues	75,001	77,531
Justice, Tax Policy, Financial Institutions, and General Management Issues	74,678	74,637
Education and Employment, Health Care, and Income Security Issues	58,417	59,414
Legal Services	23,564	22,697
Program Evaluation Methodology and Standards	8,952	10,324
Special Investigations and Investigative Support	6,633	6,382
Senior Management and Staff	3,932	4,514
Total Operating Expenses	428,857	436,217
Revenues and Financing Sources		
Appropriations expended	415,732	429,940
Rents and reimbursable services, net	11,346	4,364
Total Revenues and Financing Sources	427,078	434,304
Expenses to Be Funded by Future Appropriations	\$(1,779)	\$(1,913)
Net Position, beginning of fiscal year	\$51,591	\$49,044
Expenses to be funded by future appropriations	(1,779)	(1,913)
Increase in capitalized and unexpended appropriations	12,191	4,460
Net Position, end of fiscal year	\$62,003	\$51,591

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE
STATEMENTS OF CASH FLOWS
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1994 AND 1993

<i>Dollars in Thousands</i>	<i>1994</i>	<i>1993</i>
Cash Provided (Used) by Operating Activities		
Cash Provided by Operating Activities—Rents and Reimbursables, Net	\$4,186	\$4,281
Cash Used for Operating Activities		
Salaries and benefits	(327,694)	(337,316)
Rent, communications, and utilities	(34,993)	(31,755)
Computer and other ADP services	(17,843)	(16,994)
Other contractual services	(17,523)	(21,205)
Travel	(13,333)	(15,850)
Supplies and materials	(3,726)	(4,838)
External training	(2,233)	(2,565)
Printing and document copying	(1,896)	(2,746)
Other	(397)	(583)
Total Cash Used for Operating Activities	(419,638)	(433,852)
Net Cash Used for Operating Activities	\$(415,452)	\$(429,571)
Cash Used for Investing Activities to Acquire Property and Equipment	(20,225)	(10,693)
Cash Provided by Financing Activities—Appropriations, Net	427,979	434,686
Net Cash Used by Operating, Investing, and Financing Activities	(7,698)	(5,578)
Funds With the U.S. Treasury, beginning of fiscal year	76,517	82,095
Funds With the U.S. Treasury, end of fiscal year	\$68,819	\$76,517

U.S. GENERAL ACCOUNTING OFFICE
STATEMENTS OF CASH FLOWS
(CONTINUED)

Reconciliation of Expenses to Be Funded by Future Appropriations

<i>Dollars in Thousands</i>	<i>1994</i>	<i>1993</i>
Expenses to Be Funded by Future Appropriations	\$(1,779)	\$(1,913)
Adjustments to Reconcile Expenses to Be Funded by Future Appropriations to Net Cash Used for Operating Activities		
Appropriations expended	(415,732)	(429,940)
Decrease (increase) in advances and receivables	(4,128)	2,023
Decrease in supplies inventory	36	141
(Decrease) in liabilities covered by budgetary resources	(2,486)	(10,387)
Depreciation	13,017	9,216
Other unfunded expenses	1,779	1,913
Property and equipment accrual adjustment	(5,711)	(241)
Other adjustments	(448)	(383)
Total Adjustments	(413,673)	(427,658)
Net Cash Used for Operating Activities	\$(415,452)	\$(429,571)

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE
STATEMENTS OF BUDGET AND ACTUAL EXPENSES
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1994 AND 1993

<i>Dollars in Thousands</i>	<i>1994</i>	<i>1993</i>
Current year appropriations	\$430,165	\$435,167
Plus: Unobligated appropriations available from prior fiscal year	6,522	6,114
Plus: Rents and reimbursable services, net	11,346	4,364
Total budget resources	\$448,033	\$445,645
Less: Budget obligations	431,369	438,495
Less: Lapsed budget authority	2,186	628
Total Unobligated Appropriations	\$14,478	\$6,522
Budget Reconciliation		
Total operating expenses	\$428,857	\$436,217
Less: Expenses to be funded by future appropriations which are recognized in the principal statements but not in budgetary accrued expenditures	1,779	1,913
Plus: Net effect of capitalizing assets in the principal statements which are recognized as accrued expenditures for budgetary purposes	13,331	1,813
Plus: Net increase (decrease) in unliquidated obligations	(9,040)	2,378
Total budget obligations	\$431,369	\$438,495
Less: Rents and reimbursable services, net	11,346	4,364
Plus: Net decrease (increase) in unliquidated obligations	9,040	(2,378)
Total Budgetary Accrued Expenditures	\$429,063	\$431,753

The accompanying notes are an integral part of these statements.

NOTES TO PRINCIPAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying principal statements present the financial position, cost of operations, significant cash flows, and budget and actual expenses of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an appropriation covering salaries and expenses and a building expenditure fund. The principal statements do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as borrowing, which may in part be attributable to GAO.

Basis of Accounting

Under the authority of the Chief Financial Officers (CFO) Act of 1990, GAO participated with the Office of Management and Budget (OMB) and the Department of the Treasury in the establishment of the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB (the three principals of FASAB) decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are issued by GAO and OMB. Pending issuance of a sufficiently comprehensive set of accounting standards, and in accordance with interim guidance agreed to by the three principals, GAO prepared its principal statements based upon the following hierarchy of accounting principles and standards:

- the accounting principles, standards, and requirements approved by the three principals;
- form and content requirements for financial statements included in OMB Bulletin No. 94-01 (Form and Content of Agency Financial Statements); and
- the accounting principles and standards included in title 2 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*.

These principles differ from budgetary reporting principles. The differences relate principally to the capitalization and depreciation of property and equipment, and the recognition of other long-term assets and liabilities in the accompanying principal statements. Also, for purposes of the principal statements, budgetary appropriations are realized as a financing source as accrued expenses are recognized.

Basis of Presentation

GAO's 1994 principal statements have been prepared in accordance with the requirements of the CFO Act of 1990 and OMB Bulletin No. 94-01. Form and content changes in the principal statements include the following:

Statements of Financial Position - Assets are classified as entity and non-entity based upon whether or not GAO has the authority to use the assets in its operations, and liabilities are classified based upon whether or not budget authority or other resources are available to cover the liabilities.

Statements of Cash Flows - The Statements of Cash Flows are supplemented by a reconciliation of expenses to be funded by future appropriations to net cash used for operating activities. The difference between property and equipment purchases on the accrual basis and on the cash basis is shown on the reconciliation as a property and equipment accrual adjustment.

Funds With the U.S. Treasury

GAO's receipts and disbursements are processed by the U.S. Treasury. Funds with the U.S. Treasury represent appropriated funds available to pay current liabilities and to finance authorized purchase commitments.

Accounts Receivable

GAO's accounts receivable are due principally from federal government corporations and other federal agencies for audit and other reimbursable services. Accounts receivable which are not intended to be used in meeting GAO's operational needs, and which GAO is required by law to transfer to the Treasury, are classified as non-entity assets.

Property and Equipment

GAO's headquarters building in Washington, D.C., was capitalized at its depreciated value at the time of transfer from the General Services Administration on October 28, 1988. It is depreciated on a straight-line basis over 25 years.

Other property and equipment costing more than \$5,000 are capitalized at cost and depreciated. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. Depreciation is calculated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years.

Liabilities

Liabilities represent the amount of monies that is likely to be paid by GAO as a result of a transaction that has already occurred. However, no liability can be paid by GAO absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources. It is not certain that appropriations will be enacted to fund these liabilities. GAO's accounts payable are due principally to non-federal government entities.

Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual 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. Where claims are expected to result in payments, and the payment amounts can be reasonably estimated, appropriate provision has been included in the accompanying principal statements. In the opinion of management and legal counsel, the resolution of other claims and lawsuits will not materially affect the financial position or operations of GAO.

Reclassifications

Certain amounts for 1993 have been reclassified to conform with the 1994 presentation of those amounts.

Note 2. Property and Equipment, Net

The composition of property and equipment as of September 30, 1994, is as follows:

Dollars in Thousands

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$3,759	\$11,905
Land	1,191	—	1,191
Building improvements	38,059	20,405	17,654
Computer and other equipment, and ADP software	40,047	15,007	25,040
Leasehold improvements	6,200	4,915	1,285
Assets under capital lease	3,021	1,561	1,460
Total Property and Equipment	\$104,182	\$45,647	\$58,535

The composition of property and equipment as of September 30, 1993, was as follows:

<i>Dollars in Thousands</i>			
Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$3,133	\$12,531
Land	1,191	—	1,191
Building improvements	22,729	13,290	9,439
Computer and other equipment, and ADP software	31,498	12,370	19,128
Leasehold improvements	5,736	4,192	1,544
Assets under capital lease	2,678	1,453	1,225
Total Property and Equipment	\$79,496	\$34,438	\$45,058

Note 3. Net Position

GAO's operations do not require permanent capital and are not expected to generate an operating surplus or deficit. The composition of GAO's net position is as follows:

<i>Dollars in Thousands</i>	<i>1994</i>	<i>1993</i>
Capitalized assets, net of capital lease liability	\$58,144	\$44,869
Unliquidated obligations	30,520	39,560
Unobligated appropriations	14,478	6,522
Future appropriations needed	(41,139)	(39,360)
Net Position	\$62,003	\$51,591

The increase in capitalized assets from fiscal year 1993 to 1994 of \$13,275,000 resulted primarily from purchases of computers, other equipment, and building improvements less depreciation. Unliquidated obligations represent purchase commitments. The increase in unobligated appropriations from fiscal year 1993 to 1994

of \$7,956,000 resulted from changes included in the Legislative Branch Appropriations Act, 1995 (P.L. 103-283, dated July 22, 1994). With the enactment of the legislation, Congress permitted GAO to retain for its use funds received from federal government corporations for reimbursable financial statement audits. At September 30, 1994, GAO had billed, but not collected, \$7,155,000 for reimbursable audit services provided to federal government corporations. These funds were not obligated at September 30, 1994. Prior to Public Law 103-283, GAO was required by law to transfer these funds to the Treasury when collected and could not use these funds in meeting its operational needs. GAO reported outstanding corporate audit billings at September 30, 1993, as an account receivable and as a liability.

With the enactment of the National Defense Authorization Act (P.L. 101-510, dated Nov. 5, 1990), the Treasury permitted agencies to retain both their unliquidated obligations and unobligated appropriations for 5 years after the year of availability. GAO's unobligated appropriations as of September 30, 1994 and 1993 were \$14,478,000 and \$6,522,000, respectively. In accordance with the act, GAO lapsed \$2,186,000 of 1989 budget authority and \$628,000 of 1988 and prior years' budget authority to the Treasury related to canceled appropriations at September 30, 1994 and 1993, respectively. GAO does not believe that it has any obligations related to canceled appropriations.

Future appropriations needed represent aggregate amounts of congressionally authorized long-term liabilities (annual leave, workers compensation, retirement benefits for Comptrollers General, and severance pay) that are expected to be funded by future years' appropriations.

Note 4. Operating Expenses

Expenses incurred in the Statements of Operations and Changes in Net Position are classified and reported by major type of program. Expenses incurred by GAO's field offices have been allocated to program areas based on direct staff days used to support each program. Mission support expenses have been allocated

to program areas based on staff year usage. Operating expenses by object classification are shown in the following schedule.

<i>Dollars in Thousands</i>	<i>1994</i>	<i>1993</i>
Object Classification		
Salaries and benefits	\$330,084	\$328,394
External training	2,375	2,580
Travel	13,291	15,003
Rent, communications, and utilities	30,249	33,701
Computer and other ADP services	17,466	18,107
Other contract services	16,503	20,497
Supplies and materials	3,315	4,878
Printing and document copying	1,796	2,923
Depreciation	13,017	9,216
Other	761	918
Total Operating Expenses	\$428,857	\$436,217

Note 5. Budget and Actual Expenses

The Statements of Budget and Actual Expenses compare total actual expenses of all programs with budget authority for such programs. Since GAO's program designation in the Statement of Operations and Changes in Net Position is more detailed than its budget account (GAO has only one budget account), it was not meaningful to allocate budget resources and obligations on the same basis as its programs. These amounts are shown in total.

Lapsed budget authority at September 30, 1994, represents fund balances returned to the Treasury (\$2,186,000). Lapsed budget authority at September 30, 1993, includes fund balances returned to the Treasury (\$481,000) and accounts receivable transferable to the Treasury (\$147,000).

The statements also provide a reconciliation of the actual expenses incurred on the accrual basis to budget obligations and budgetary accrued expenditures. This reconciliation is presented to facilitate an understanding of the relationship and differences between information presented in the principal statements and budgetary information.

Note 6. Leases

Operating Leases

GAO leases office space from the General Services Administration and the Department of State and has entered into various other operating leases for office communication and ADP equipment. Generally, leases are cancelable by either party without penalty, upon 120 days notice. Lease costs for office space and equipment for fiscal years 1994 and 1993 amounted to approximately \$23,300,000 and \$23,900,000, respectively. GAO's estimated future minimum lease payments are as follows:

Dollars in Thousands

Fiscal Year end September 30	Total
1995	\$22,600
1996	17,930
1997	15,849
1998	14,070
1999	13,502
Thereafter	23,154
Total Estimated Future Lease Payments	\$107,105

Capital Leases

GAO has entered into several noncancelable capital leases 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 and recorded as a liability.

Note 7. Retirement and Other Benefits

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes matching contributions to the CSRS, FERS, and FICA and matches employee contributions to the savings component of FERS up to 5 percent of basic pay but has no liability for future payments to employees under these programs. GAO's costs for employee retirement programs during fiscal years 1994 and 1993 were approximately \$37,166,000 and \$37,490,000, respectively. In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and may continue to participate after retirement. GAO makes matching contributions to the FEHBP for active employees but is not responsible for any contributions on behalf of retirees. GAO's costs associated with its employee health benefit programs during fiscal years 1994 and 1993 amounted to approximately \$11,031,000 and \$11,514,000, respectively.

Comptrollers General and their surviving beneficiaries who qualify and so elect are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was \$2,116,000 as of September 30, 1994, and \$1,899,000 as of September 30, 1993, based on a discount rate of 7.5 percent and the 1983 Group Annuity Mortality Table.

Note 8. 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 ultimately paid by GAO.

GAO recorded an estimated liability for claims incurred as of September 30, 1994 and 1993 and expected to be paid in future periods. The estimated liability for such claims was calculated using historical payment data to project future costs. During 1994, GAO increased its estimate of the future liability for claims incurred under FECA. This increase resulted from an estimate prepared using a statistical model developed by DOL and modified for use by GAO. GAO previously calculated its estimate of the liability using non-statistical data. This change increased expenses to be funded by future appropriations by \$2,707,000. The total liability also includes amounts paid to claimants by DOL as of September 30, 1994 and 1993 of \$1,807,000 and \$1,570,000, respectively, but not yet reimbursed to DOL by GAO.

Note 9. Trust and Other Governmentwide Functions (Unaudited)

GAO is responsible for administering two trust functions for the federal government: (1) Davis-Bacon Act receipts and payments and (2) assets of American citizens who die abroad. GAO is accountable to Congress and the public for the proper administration of the assets held in the trusts. Trust assets under administration by GAO aggregated approximately \$7,764,000 on September 30, 1994. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1994, receipts and disbursements in these funds amounted to \$1,931,000 and \$1,925,000, respectively. Since these trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal statements.

In addition to the trust activities, GAO is also responsible for authorizing the payment of certain adjudicated and administratively settled claims against the federal government from a special appropriation maintained by the U.S. Treasury. During fiscal years 1994 and 1993, GAO authorized approximately \$568,200,000 and \$568,000,000, respectively, in claims for payment from this special appropriation. Since these payments do not relate to GAO's operations, they are not included in the accompanying principal statements.

AUDIT ADVISORY COMMITTEE'S REPORT

In late 1992, the Audit Advisory Committee was established to advise the Comptroller General on the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the Committee has been discussing GAO's external financial audit coverage and discussing with GAO management and the internal and the external auditors the effectiveness of GAO's internal controls over financial operations and its compliance with selected provisions of applicable laws and regulations. The Committee has also been reviewing the findings of the internal and the external auditors and discussing GAO's responses to those findings to ensure that GAO's corrective action plans include appropriate and timely follow-up measures. In addition, the Committee has been involved in reviewing and commenting on drafts of GAO's annual report, including the principal statements. The Committee met three times during both fiscal years 1993 and 1994 with the Comptroller General and with GAO's external auditors. On occasion, the Committee also met with the external auditors without GAO management being present.



Sheldon S. Cohen
Chairman
Audit Advisory Committee

INDEPENDENT AUDITORS' REPORT

KPMG Peat Marwick LLP

Certified Public Accountants

2001 M Street N.W.
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INDEPENDENT AUDITORS' REPORT

Comptroller General of the United States:

We have audited the General Accounting Office's Principal Statements, referred to below, as of and for the years ended September 30, 1994 and 1993, and have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994.

In our opinion:

- The 1994 and 1993 Principal Statements are presented fairly, in all material respects; and
- Management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Bulletin A-123, *Internal Control Systems*.

We found:

- No material conflicts with the General Accounting Office's report on internal controls voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No material noncompliance with selected provisions of applicable laws and regulations tested.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

OPINION ON PRINCIPAL STATEMENTS

In our opinion, the 1994 and 1993 Principal Statements, including the accompanying notes on pages 63 through 73, present fairly, in all material respects, the General Accounting Office's:

- financial position as of September 30, 1994 and 1993;
- results of operations and changes in net position;
- cash flows; and
- budget and actual expenses for the years then ended,

on the basis of accounting described in Note 1 to the Principal Statements.

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As described in Note 1, the General Accounting Office prepares its Principal Statements in conformity with the hierarchy of accounting principles and standards approved by the principals of the *Federal Accounting Standards Advisory Board*. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

OPINION ON MANAGEMENT'S ASSERTION ON THE INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING

We have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994. These internal controls are designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- revenue and expenditures applicable to the General Accounting Office's operations are properly recorded and accounted for to enable the General Accounting Office to prepare accounts and reliable financial reports and to maintain accountability over its assets.

In our opinion, management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Bulletin A-123, *Internal Control Systems*, insofar as the objectives stated above pertain to the timely prevention or detection of errors and irregularities in amounts that would be material to the financial statements. In addition, nothing came to our attention to indicate that the General Accounting Office's report on internal controls dated December 15, 1994 voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982, conflicts materially with the results of our examination.

COMPLIANCE WITH LAWS AND REGULATIONS

The objective of our audit of the Principal Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

However, our tests of compliance with selected provisions of applicable laws and regulations disclosed no material instances of noncompliance. Also, with respect to items not tested, nothing came to our attention that caused us to believe that material noncompliance with such provisions occurred. These conclusions with respect to our tests of compliance with selected provisions of applicable laws and regulations are intended solely for the information of Congress and the General Accounting Office's management.

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RESPONSIBILITIES AND METHODOLOGY

Management has the responsibility for:

- preparing the Principal Statements in conformity with the comprehensive basis of accounting described in Note 1 to the Principal Statements;
- establishing and maintaining an effective internal control structure; and
- complying with applicable laws and regulations.

Further, management has elected to comply with substantially all of the provisions of the Federal Managers' Financial Integrity Act of 1982.

Our responsibility is to express opinions on the Principal Statements and management's assertion that the General Accounting Office has an effective internal control structure over financial reporting based on our audits and examination, respectively. Accordingly, we planned and performed the audits and examination to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and presented fairly in accordance with the basis of accounting described in Note 1 to the Principal Statements, and (2) management's assertion that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Bulletin A-123, *Internal Control Systems*. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Principal Statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Statements;
- obtained an understanding of the internal control structure over financial reporting;
- evaluated and tested the design and operating effectiveness of relevant internal controls over the following significant cycles, classes of transactions, and account balances:
 - Payroll;
 - Travel Disbursements;
 - Operating Disbursements;
 - Budget Monitoring and Appropriations;
 - Fund Balances with Treasury; and
 - Accounts Payable.

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- tested compliance with selected provisions of the following laws and regulations that may materially affect the Principal Statements:
 - Anti-deficiency Act;
 - Fair Labor Standards Act;
 - Civil Service Retirement Act;
 - General Accounting Office Personnel Act of 1980;
 - Federal Employees' Compensation Act;
 - Federal Employees' Health Benefits Act of 1959; and
 - Federal Employees' Group Life Insurance Act of 1980.
- performed other procedures as we considered necessary in the circumstances; and
- at management's request, compared the General Accounting Office's most recent Federal Managers' Financial Integrity Act of 1982 report on internal controls dated December 15, 1994, with the results of our examination of management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objectives identified in our opinion on management's assertion on the internal control structure over financial reporting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. We also caution that projecting the results of our examination to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Our audits were conducted in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 revision), as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Our examination of management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting in place as of September 30, 1994, was conducted in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audits and examination provide a reasonable basis for our opinions.

Consistency of Other Information. The *Overview of Operations and Financial Management* and other supplemental information in *A Message from the Comptroller General* and in *Highlights of General Accounting Office Reports and Testimony* contain a wide range of data, some of which is not directly related to the Principal Statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the Principal Statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the Principal Statements, the report, or the other information require revision.

KPMG Peat Marwick LLP

December 16, 1994
Washington, D.C.