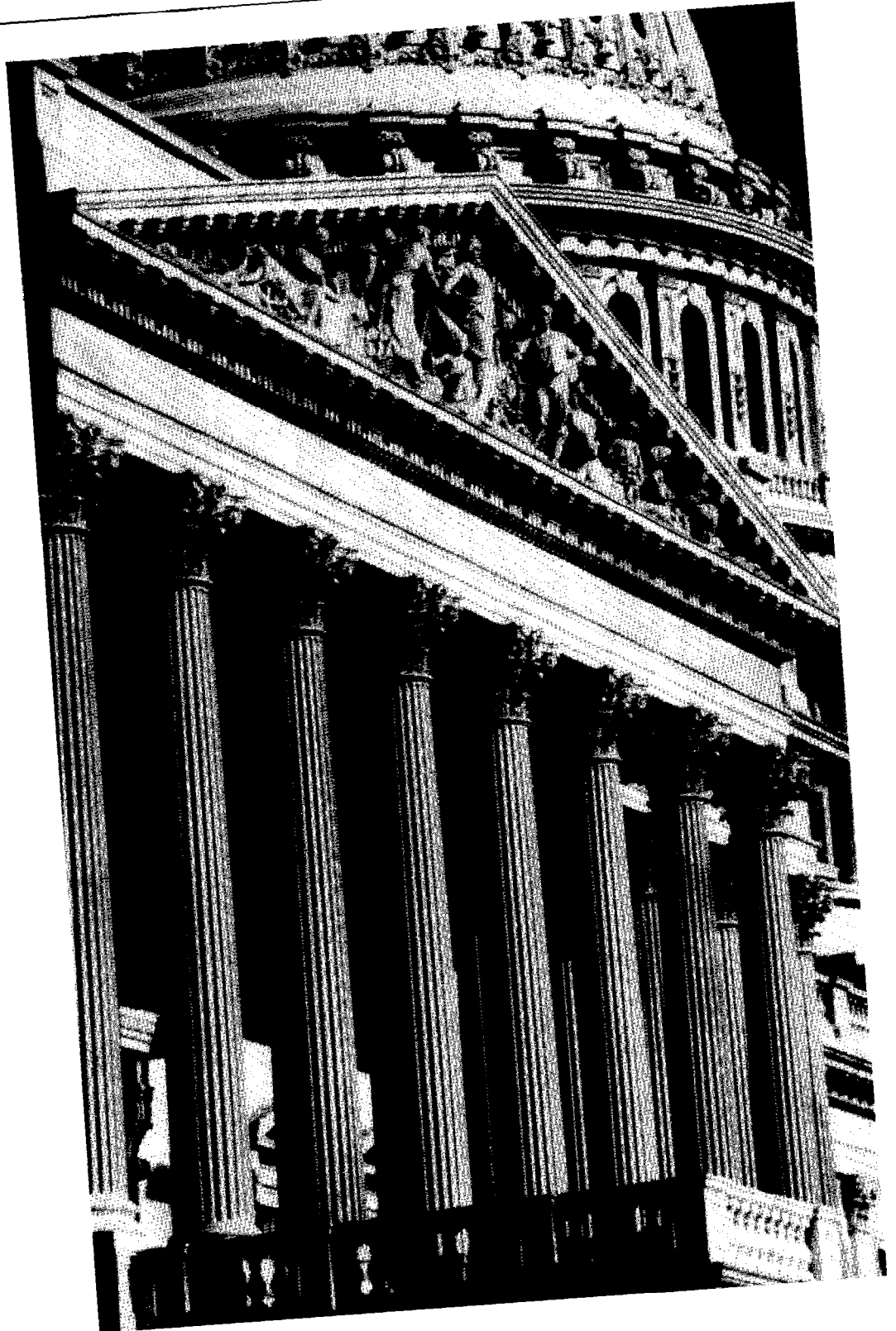


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GAO

COMPTROLLER  
GENERAL'S  
1992 ANNUAL  
REPORT



UNITED STATES  
GENERAL  
ACCOUNTING OFFICE



## GAO'S MISSION

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*We seek to achieve honest, efficient management and full accountability throughout government. We serve the public interest by providing members of Congress and others who make policy with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the security and well-being of the American people.*

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# A MESSAGE FROM THE COMPTROLLER GENERAL

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*"In 1992, GAO marked another successful year of service to the Congress and the American people. The magnitude and complexity of GAO's work load continued at record high levels."* \_\_\_\_\_



**E**vents are unfolding in the United States and around the world at an unprecedented pace. The worldwide political and economic restructuring has important implications for the future of U.S. competitiveness in international markets and for defense force reduction and realignment. At the same time, problems associated with the budget deficit continue to challenge the nation's ability to provide programs and services in crucial areas, such as health care, education, energy, transportation, finance, economic development, and the environment. As the Congress attempts to deal with these and other issues, it increasingly turns to GAO for analysis, information, and support. As a consequence, in 1992, the magnitude and complexity of GAO's work load continued at record high levels.

## **GAO'S PERFORMANCE AND PRODUCTIVITY**

In fiscal year 1992, GAO marked another successful year of service to the Congress and the American people. GAO produced 1,573 audit and evaluation products, including 1,117 reports to the Congress and agency officials, 167 formal congressional briefings, and 289 congressional testimonies delivered by 72 GAO executives. GAO also produced almost 4,000 legal decisions and opinions.

GAO's contribution is not measured simply by the number of reports issued, but—more importantly—by the impact of its work in helping Members of Congress and other policymakers successfully address critical issues. Consider the following examples:

- The significant increase in GAO's congressional testimonies and the number of GAO witnesses since the mid-1980s demonstrates that the Congress is seeking GAO's expertise and input as important legislative events are unfolding.
- In 1992, GAO made 1,715 new recommendations—a record number—covering the full range of key areas of congressional concern. By the end of the year, federal agencies had implemented more than three-quarters of the recommendations GAO had made 4 years earlier—an important measure of GAO's effectiveness.

- In 1992, GAO's work contributed to legislative and executive actions resulting in more than \$36.2 billion in measurable financial benefits to the government, another record high. These financial benefits included budget reductions, cost avoidances, appropriations deferrals, and revenue enhancements that GAO documented as being directly attributed to or significantly influenced by its work. Examples of GAO's work that produced measurable financial benefits can be found in the section discussing GAO's work on key issues.

Some of GAO's most important accomplishments cannot be measured in financial terms. In 1992, GAO contributed to at least 192 significant improvements in government operations, covering a wide range of issues. Consider the following examples:

- The Congress has enacted legislation to provide early warning of potential bank failures and to institute corporate governance reforms for financial institutions to minimize future losses to the Bank Insurance Fund.
- The Securities and Exchange Commission (SEC) is assessing ways to correct computer security control weaknesses at five of the nation's stock exchanges.
- The Secretary of the Treasury has simplified the federal tax deposit rules to make it easier for employers to understand and comply with them.
- The Congress and the Resolution Trust Corporation have taken numerous actions to improve that agency's operations.
- The Department of Veterans Affairs has taken steps to improve health care for women veterans.
- The Department of Agriculture (USDA) has taken steps to improve the content description and to provide nutrition information for canned meats.
- The Food and Drug Administration has ordered manufacturers of heart pacemaker leads to study the long-term performance of their devices because of unacceptably high failure rates for some models.
- The Congress enacted legislation to encourage states to adopt or retain motorcycle helmet laws.

Selected performance and productivity measures documenting GAO's progress over a 10-year period are summarized in figures 1-5. The bars on each chart represent aggregated data for a 2-fiscal-year cycle. Because the 2-year increments generally coincide with congressional terms, this presentation most accurately reflects GAO's work load patterns and performance over time.

Figure 1: Number of GAO Audit/Evaluation Products

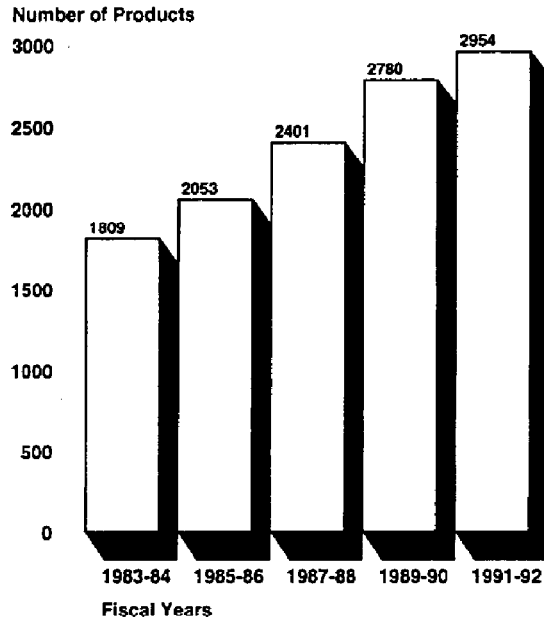


Figure 2: Number of GAO Congressional Testimonies

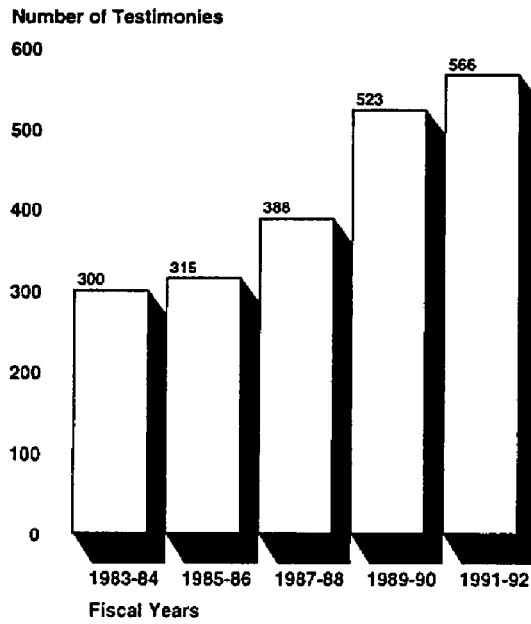


Figure 3: Financial Benefits From GAO's Work

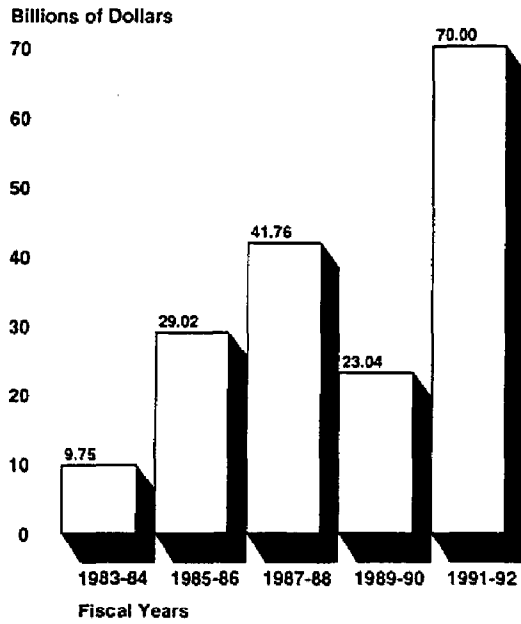


Figure 4: Number of GAO Recommendations Made

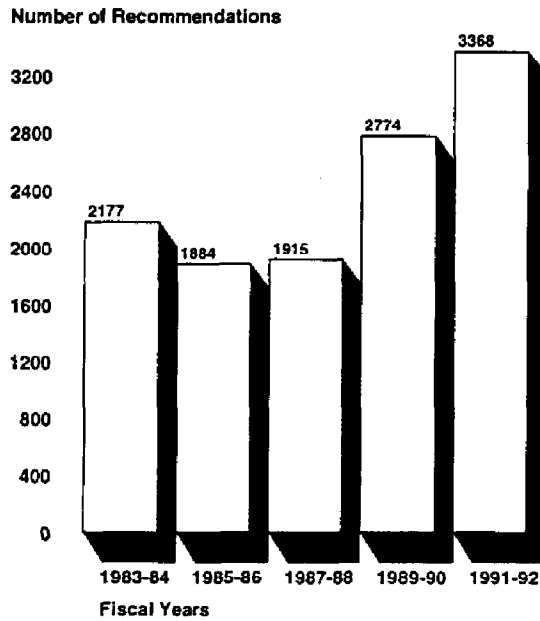
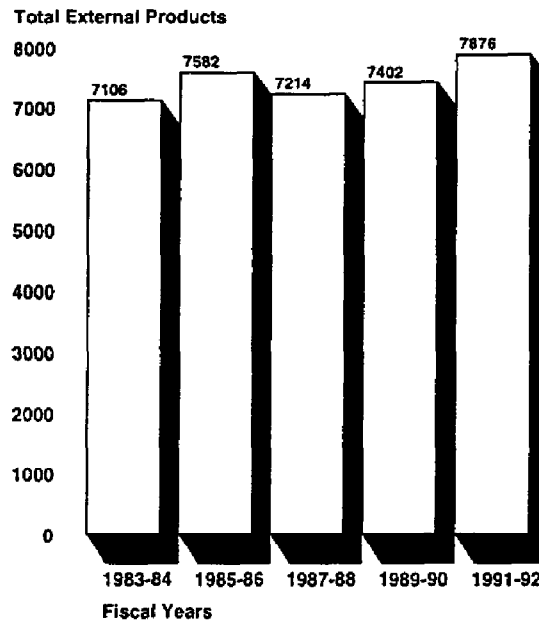




Figure 5: Office of the General Counsel  
Productivity



## QUALITY MANAGEMENT

GAO's record of accomplishment notwithstanding, we recognize that our future success requires a firm commitment to continuous improvement. We must increasingly ask whether our traditional approaches to managing and performing our work will enable us to meet the challenges of the future. GAO's work load is becoming larger and more analytically and technically complex, even as budgets become more constrained. As a result, we receive far more requests than we have resources to satisfy. Under these conditions, GAO must continue to seek innovative ways to work more efficiently.

To that end, GAO has taken steps to institute quality management, a comprehensive management approach that has helped both public- and private-sector organizations improve quality, efficiency, and effectiveness. This leadership philosophy, which emphasizes management by fact, sets quality as the primary organizational goal and establishes continuous improvement as a way of life. One of its key strengths is that it involves all people in the organization in quality improvement efforts. We believe quality management will allow GAO to provide an improved level of service to all of our customers.

In 1992, the first full year of GAO's quality management initiative, we gathered information that we are using to set priorities for improvement for the next 4 years. We surveyed a sample of congressional staff directors and minority staff to elicit views on what GAO can do to help Members of Congress and their staffs meet their legislative responsibilities. We learned that these people believe we could communicate better, be more responsive, and improve the way we set priorities in our work. We also prepared flow charts showing our core processes—the way we do our work and report our findings—and found many areas for improvement, including reducing duplication of effort and rework, developing a common definition of quality, and improving staffing of jobs. In addition, we assessed our system of performance measurement and identified ways to improve it.

## HUMAN RESOURCES

As GAO strives to improve its products, its efficiency, and its responsiveness to the Congress, the quality of its staff remains its most valuable and important asset. GAO has hired staff with a wide range of technical skills to respond to the increasingly complex issues that the Congress asks it to address. In addition to accountants, financial specialists, social science analysts, attorneys, and evaluators, GAO's staff includes experts in many disciplines, including transportation specialists, electronic and aerospace engineers, natural resource managers, psychologists, economists, actuaries, physical and computer scientists, mathematicians, and statisticians.

In managing this interdisciplinary work force, we have adopted human resource management goals that embrace the following six principles:

- hire the best,
- train them well,
- give them challenging work,
- provide them with first-rate equipment and work environments,
- reward those who excel, and
- treat people fairly.

Pursuing these principles has yielded excellent results. In 1992, over 70 percent of GAO's entry-level hires had graduate degrees, and almost three-quarters had grade-point averages of 3.5 or higher on a 4-point scale. GAO has substantially upgraded the training curriculum for all employees, and all evaluators and evaluator-related staff—including senior managers—must meet a continuing professional education requirement of 80 hours every 2 years to remain qualified to do audit/evaluation work. GAO also has worked to achieve a diversified and representative work force, continuing to increase the representation of women and minorities overall and especially in the management and executive levels.

## **GAO HOSTS INTERNATIONAL CONGRESS**

One hundred and twenty countries and 10 international organizations, represented by 350 delegates and observers, participated in the Fourteenth International Congress of Supreme Audit Institutions (XIV INCOSAI), hosted by GAO in Washington, D.C., in October 1992. This event marked the first time in INCOSAI's 40-year history that the United States hosted the triennial conference. Among the achievements of the XIV INCOSAI were the adoption of international standards for auditing, accounting, and internal controls, and the creation of new committees to study audit issues related to program evaluation, privatization, and the environment. As Comptroller General and host of the XIV INCOSAI, I am honored to serve as Chairman of the Governing Board of the International Organization of Supreme Audit Institutions for the next 3 years.

## **SUMMARY OF WORK ON KEY ISSUES**

In 1992, the Congress called upon GAO to work on some of the nation's most important issues. Following are highlights of GAO's work on selected key issues.

### **Transition and High-Risk Series Reports**

In late 1992, GAO issued two important series of reports—a transition series and a “high-risk” series. The 28 transition reports summarized the results of GAO's work on key issues and agencies during the past 4 years. These reports focused on important management, operational, and policy issues facing the new Congress, President, and agency heads and included recommended actions. The 17 reports in the high-risk series covered specific areas or programs considered to be especially vulnerable to waste, fraud, abuse, and mismanagement, such as the Bank Insurance Fund, guaranteed student loans, Medicare claims, and defense contract pricing. These reports focused on the causes of the problems, progress made in correcting them, and actions required of the Congress, the Administration, and agency officials to ensure more efficient and effective program operation.

### **National Defense**

The end of the Cold War has materially altered the international environment, setting the stage for the most fundamental and potentially far-ranging rethinking of national defense policy and structure in decades. Policymakers face difficult choices as they attempt to balance strength and affordability. These choices—involving force restructuring, weapon systems funding, military base closures, arms control, burden sharing, the defense

industrial base, and the changing role of NATO and other alliances—will be even more complex as they are considered in light of the enormous and growing national debt.

In 1992, GAO's work resulted in significant dollar savings and contributed to the debate on the overall future of national defense. Consider the following examples:

- The Congress, responding to GAO reports and testimony on the funding of Operations Desert Shield/Desert Storm, rescinded \$14.7 billion from the Persian Gulf Regional Defense Fund.
- GAO's work on inventory management at the Department of Defense (DOD) led the Congress to cut \$4 billion from DOD's budget to force efficiencies in the inventory system. DOD is now working toward using more economical business practices in its handling of spare parts and other inventory items.
- The Department of Justice recovered \$5.1 million in overcharges that GAO had identified in a weapon system contract.
- GAO's analysis of the Patriot missile's effectiveness in Operation Desert Storm and GAO's work on the B-2 bomber, C-17 cargo plane, and Seawolf submarine were used extensively in congressional deliberations on those sensitive subjects.
- GAO issued a series of eight classified reports that analyzed the performance of the weapon systems of the three legs of the strategic nuclear triad (land, sea, and air). These reports introduced a comprehensive methodology for comparing the weapons of each leg using common measures of effectiveness. GAO's methodology should greatly help congressional and executive branch policymakers as they weigh options and costs and make important choices on defense.

## Health Care

Nearly 34 million Americans have no health insurance. Yet the United States spends more per capita on health care than any other nation: U.S. health expenditures in 1992 topped \$800 billion, consuming 13.9 percent of the gross national product (GNP). The federal government's primary programs for financing health care—Medicare and Medicaid—accounted for about one-fourth of the nation's health care expenditures, with federal health care expenditures totaling an estimated \$259 billion in 1992. Access and financing are not the only areas of concern: the United States faces continuing problems of substance abuse, AIDS, and tuberculosis, while the public health infrastructure is seriously strained.

During 1992, GAO's work contributed to the debate on health policy and reform. GAO completed two reports on efforts by the states to implement health care reforms and potential federal barriers to those reforms. Because these reports presented lessons learned from the states, they have become key resources in the consideration of federal reform legislation. GAO also made a series of recommendations to improve the efficiency and integrity of the federal health financing programs—Medicare, Medicaid, and the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)—and the health care delivery systems of DOD and the Department of Veterans Affairs. GAO's health care work led to measurable financial benefits estimated at more than \$1.3 billion in fiscal year 1992.

## Education and Employment

A highly educated and skilled work force is essential to the future economic growth of the United States, especially in an increasingly competitive global marketplace. As the Congress seeks to improve the skills of America's work force by strengthening the educational system, education reform has become a key focus of congressional concern. Education reform must concentrate on a wide range of issues, including upgrading the skills of existing workers and strengthening programs at all levels—from preschool through higher education—to improve the educational attainment of all children and provide effective transition-to-work programs and other services to ensure the nation's youth's success in tomorrow's marketplace.

GAO's work in education has already had positive results. Many of GAO's recommendations were incorporated in the Higher Education Amendments of 1992, which cover federal student aid programs. For example, federal screening of schools will be improved to better exclude schools that are financially weak or fail to provide promised training from participating in the programs, and reforms in the Perkins student loan program should encourage schools to reduce default rates. In addition, GAO's findings that making loans directly to students could save the federal government about \$4.8 billion within 5 years contributed to the Congress's decision to establish a 4-year direct loan demonstration project at a representative sample of schools that had a total loan volume of \$500 million.

GAO's work also contributed to program improvements included in the reauthorization of the Job Training Partnership Act. The revised act refocuses the program on the economically disadvantaged, addresses abuses of on-the-job training, emphasizes continuing services to older workers, strengthens program oversight, and improves federal monitoring of racial and gender disparities.

## Transportation

Federal, state, and local governments are faced with rebuilding an aging

transportation infrastructure while simultaneously improving air quality, meeting disabled persons' mobility needs, optimizing limited resources, and investing in new technologies to enhance existing transportation systems. Transportation investment decisions will have a profound effect on national economic vitality, international competitiveness, mobility of people, and protection of the environment.

GAO made significant contributions to the enactment of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). GAO's work supported the cornerstone of ISTEA—that future surface transportation programs must adopt investment strategies that balance the trade-offs among aviation, mass transit, highway, and rail to relieve congestion and meet the nation's clean air goals. Of the \$155 billion in federal assistance authorized for highway and mass transit programs during a 6-year period, about \$80 billion was approved for discretionary use by state and local governments for either highway or mass transit projects.

In addition, ISTEA included a number of safety provisions based on GAO's work, including incentives and penalties to encourage states to adopt or retain mandatory safety belt and motorcycle helmet laws, as well as prohibitions on the expanded use of longer combination vehicles. Other ISTEA provisions accommodated GAO's recommendations on using federal funds for preventive maintenance, restricting the federal share of toll road funding, and targeting federal dollars to interstate highway preservation.

## Energy and the Environment

Energy and environmental issues will require the attention of the new Congress and President in the next several years. The end of the Cold War and the reduced demand for nuclear weapons, coupled with the growing awareness of the importance of advancing a comprehensive and strategic energy policy, have set the stage for fundamental top-to-bottom assessment of the nation's ability to meet future energy needs. GAO's work on energy issues covers a wide spectrum of topics, including identifying trade-offs in energy policy, developing a long-term Department of Energy (DOE) management focus, revising strategies for the nuclear weapons complex, refocusing national laboratories on current national needs, resolving DOE's nuclear waste disposal dilemma, and ensuring international nuclear safety and nonproliferation. Many of these areas involve substantial financial resources. For example, in 1992, GAO's energy work pointed out that a new production source of tritium was not needed because the nuclear weapons stockpile was decreasing and other sources of tritium were available. The Secretary of Energy subsequently ended efforts to design and construct a new production reactor, saving more than \$3.5 billion.

Public expectations for environmental protection remain high, despite the fiscal constraints faced by federal, state, and local governments and industry. Currently, the United States—counting government and industry—spends about

\$115 billion a year to meet environmental goals. This investment is expected to rise to about \$160 billion during the next decade. Meeting the demands of the nation's environmental agenda will be especially difficult in light of continuing budget deficits. Also, as environmental issues and concerns increasingly take on an international dimension, the United States will face both new challenges and opportunities in formulating future environmental policies and initiatives.

In 1992, consistent with GAO's recommendations on the Superfund program, the Environmental Protection Agency (EPA) proposed a rule to almost triple the amount of indirect cleanup costs it can recover from polluters. The rule would increase potential recoveries by about \$100 million annually and by billions over the life of the program. EPA has also made major reforms in its contracting program, including reducing contractor program management costs by about \$35.6 million in fiscal years 1991 and 1992. And GAO's report on the usefulness of health assessments conducted by the Agency for Toxic Substances and Disease Registry caused that agency to strengthen its procedures for performing the assessments and to reassess the health hazards at Superfund sites previously evaluated.

## Agriculture and Food Safety

The U.S. Department of Agriculture (USDA) is the third largest civilian agency in the federal government, managing programs designed to support farm income, develop markets, boost farm production and exports, and provide consumers with food information and assistance. Resource constraints at home and competition in agricultural markets abroad have created pressures to modify existing departmental structures and programs.

As a result of GAO's general management review of USDA, the Senate and House Agriculture Committees held several hearings in fiscal year 1992 on streamlining the agency and its field structure. GAO testified before both committees, and members of both committees introduced legislation aimed at reorganizing USDA. In addition, the Secretary of Agriculture and the Director of the Office of Management and Budget formed a joint task force on streamlining the department.

GAO's analyses of farm program flexibility provisions adopted in the 1990 farm bill contributed to almost \$900 million in estimated savings in fiscal year 1992. The Congressional Budget Office (CBO) estimated that these savings are expected to average more than \$1.25 billion a year in fiscal years 1993-95. Additionally, analysis of the Farmers Home Administration's farm loan programs warned the Congress that current lending practices place billions of federal dollars at risk. Analyses of the crop insurance and disaster assistance programs contributed to congressional debate to reform these areas. GAO also sponsored a symposium in which policymakers and practitioners from across the nation examined the problems affecting rural America, their underlying causes, and policy alternatives for addressing them.

GAO found that the five federal agencies with primary responsibility for food safety issues have made little progress in improving interagency coordination and service delivery during the last 20 years. Problems of duplicate inspections, inadequate enforcement authorities, poor coordination, and inconsistent and illogical regulatory approaches continue. GAO recommended that the structure of the federal food safety system be reviewed, particularly the number of laws and agencies involved and the priorities that have governed their regulatory approaches.

## Decennial Census

Few federal undertakings relate so directly to the basic foundations of the nation's representational democracy as the decennial census. The results and experiences of the 1990 census demonstrate that the American public has grown too diverse and dynamic to be accurately counted solely by the traditional "headcount" approach and that fundamental changes must be implemented for a successful census in 2000.

GAO's 1992 capping report on the 1990 census summarized more than a decade of work. The report discussed major opportunities for fundamentally reforming the census, including expanding cooperative relationships between the Bureau of the Census and the Postal Service to improve the address list, radically streamlining the census questionnaire, and sampling nonresponding households rather than visiting every one. All told, these reforms offer the opportunity for a more accurate, cost-effective census.

## Managing Information Technology in the Federal Government

Federal agencies spend more than \$20 billion annually on new information technology and tens of billions more on operating and maintaining current systems. GAO has continued to identify information systems that fail to provide managers with the information that they need to manage well, systems with weak internal controls that increase the risk of waste and abuse, and aging systems that are not capable of meeting growing work loads. GAO's work in this area led to measurable financial benefits estimated at more than \$550 million in fiscal year 1992.

## The Budget Deficit

The federal budget deficit continues to be one of the greatest dangers to the nation's future economic health. Continuing deficits dampen long-term economic growth by absorbing national savings and by reducing the government's ability to address unmet needs. In fiscal year 1992, the federal



deficit was \$290 billion, or 4.9 percent of the gross domestic product (GDP). However, the federal funds deficit—the deficit excluding retirement trust fund surpluses—approached \$400 billion.

The passage of the Budget Enforcement Act in 1990 helped hold down some elements of spending but left major parts of the problem untouched. For the next decade, the outlook for the deficit will depend largely on trends in spending for defense, interest on the debt, health care, and deposit insurance programs. In 1992, interest on the public debt (including interest earned on trust fund balances) was \$292 billion, representing 43 percent of general fund revenues and almost equaling the defense budget. Reform of the nation's health care system is vital to any deficit reduction strategy; the CBO projects that, without such reforms, federal spending on health care will nearly double as a share of GDP by 2002. Containing the future costs of deposit insurance will require vigorous implementation of the recently enacted regulatory reforms, coupled with efficient management and disposition of assets acquired from failed financial institutions.

For the longer term, failure to reduce the deficit could doom future generations to a stagnating standard of living, damage U.S. competitiveness and influence in the world, and hamper our ability to address pressing national needs. GAO's adaptation of a long-term economic growth model developed at the New York Federal Reserve Bank suggests that if current policies were to remain unchanged, deficits could explode to more than 20 percent of GNP by 2020, driven largely by health care costs, interest, and the aging of the baby boom population. Just holding deficits to 3 percent of GNP—somewhat better than we have done recently—would require progressively greater effort as interest costs consume a growing portion of scarce budget resources. Today compound interest works against deficit reduction as interest must be paid on interest; prompt action to reduce the deficit, however, changes compound interest to an ally.

GAO has reported on the composition of and trends in federal spending. Our work has identified elements driving the budget deficit and the kinds of choices that will be necessary to reduce the deficit. In addition, as part of its work on the budget process and structure, GAO has been in the forefront of discussions on how to restructure the budget to highlight investment programs. Our June 1992 report, Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2), discussed the impact of the deficit and the importance of prompt action.

## Financial Markets

The financial markets continue to change at a dizzying pace, as new domestic and international market developments affect both the functioning of U.S. markets and the perception of how fairly they treat customers. GAO

addressed several market-sensitive issues in 1992. GAO's recommendations led the Congress to provide the Commodities Futures Trading Commission with the legislative authorities it needed to fully share information and cooperate with foreign regulators. Also, as a result of GAO work, the SEC is considering adjusting U.S. securities firms' capital standards to recognize more foreign markets. In another report, GAO recommended that the SEC collect the data necessary to assess the need for additional regulation or legislation of the financial activities of U.S. securities firms' unregulated affiliated and broker-dealer holding companies.

GAO's long-standing efforts to help improve trade practices and help prevent fraud at the commodities exchanges were recognized when its recommendations to require exchanges to independently, precisely, and completely time each trade became law. On another consumer issue—the securities arbitration process—GAO made a significant contribution by providing the Congress and the industry with previously unavailable and statistically valid data on the process and its results. The self-regulatory organizations are addressing GAO's findings that arbitration forums lacked the internal controls needed to provide reasonable assurances of arbitrators' qualifications and independence.

## Financial Management

The Chief Financial Officers (CFOs) Act of 1990 is a far-reaching, landmark piece of legislation with great potential for improving financial management of the federal government. The act creates CFO positions with broad management powers in 23 major agencies and requires annual reports on the financial condition of government entities and the status of management controls. The act is the first law to require Inspectors General to arrange annual audits of financial statements for many of the government's operations. It requires governmentwide systems planning. It also mandates the development of meaningful performance measures and the integration of budgeting and accounting.

GAO's strategy for achieving effective implementation of the act entails five key elements:

1. ***Working with the executive branch—the Office of Management and Budget (OMB), the CFO Council Task Force on Implementation of the CFOs Act, and the President's Council on Integrity and Efficiency—to develop implementing guidance.*** Such guidance includes defining the roles and responsibilities of CFOs, setting standards for their qualifications, developing new financial statement formats, and developing new audit guidance.
2. ***Performing key pilot audits.*** GAO took on three of the most complex audits required by the CFOs Act. During 1992, GAO completed the first financial

audit of the Army and is midway through its audits of the Internal Revenue Service and the U.S. Customs Service. The Army audit called attention to major financial management problems and led to many specific recommendations to solve the problems.

3. ***Providing technical assistance and guidance to individual Inspectors General and CFOs throughout government.*** GAO created a special group to help IGs perform the audits required by the act. The group also provided assistance to CFOs with their tasks.
  
4. ***Developing a comprehensive financial audit methodology and an effective training program.*** During fiscal year 1992, GAO trained about 800 agency staff to perform financial audits. GAO also developed and published the new Financial Audit Manual for CFOs Act audits and developed software tools for conducting the audits. Furthermore, GAO has begun to develop a new systems review methodology and to revise and improve government audit standards.
  
5. ***Working as part of the Federal Accounting Standards Advisory Board to develop accounting principles and standards.*** Along with OMB, the Department of the Treasury, and other federal and nonfederal representatives, GAO is developing new federal government accounting and reporting standards that will better meet user needs, integrate accounting and budgeting, and provide a basis for measuring performance and stewardship.

## GAO'S FISCAL YEAR 1992 FINANCIAL STATEMENTS

As described above, GAO has been working closely with the Congress, OMB, the agencies, and the Inspectors General on all facets of implementing the CFOs Act of 1990. While not subject to the act, GAO firmly supports the act's goals and is committed to complying fully with its requirements.

GAO has been producing independently audited annual financial statements for several years. Fiscal year 1992's statements, including an overview of GAO's financial operations, appear in the following section of this report.



CHARLES A. BOWSHER  
Comptroller General  
of the United States

# OVERVIEW OF OPERATIONS AND FINANCIAL MANAGEMENT

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This overview includes

- a description of the General Accounting Office (GAO) and its mission,
- a commentary on GAO's financial resources and results of operations,
- a status report on some recent investments in productivity,
- summaries of internal control and financial management initiatives,
- a review of external quality control initiatives,
- a discussion of GAO's performance information, and
- a description of the scope of the audit of GAO's 1992 principal statements.

Immediately following the overview are GAO's principal statements for fiscal years 1992 and 1991, along with the independent auditors' report.

## GAO and Its Mission

GAO, a nonpartisan agency in the legislative branch of the U.S. government, fulfills a unique role. GAO's mission is to achieve honest, efficient management and full accountability throughout government. GAO serves the public interest by providing members of Congress and others who make policy with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the security and well-being of the American people. To accomplish this, GAO calls upon the varied skills of approximately 5,000 career employees who work throughout the world.

As has been the case in recent years, about 80 percent of GAO's work during fiscal year 1992 was done at the specific request of the 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. Other assignments are initiated pursuant to standing commitments to congressional committees, and some are required by law. Finally, GAO undertakes some assignments independently in accordance with its basic legislative responsibilities.

GAO's work is managed through four program divisions and three technical divisions. Staff concentrate on specific subject areas; this enables them to become highly knowledgeable about the agencies and programs they audit. By maintaining expertise in key areas of interest, GAO staff can respond quickly and comprehensively to congressional requests.

The single most important principle governing GAO's work is commitment to quality. GAO defines high-quality work as

- objective and independently derived;
- accurate, timely, and meaningful; and
- presented in a way that is most useful to responsible officials.

GAO's Office of the General Counsel (OGC) assists the Comptroller General and GAO staff with legal issues that arise during audits and evaluations. The office also prepares Comptroller General decisions and opinions for Congress and the executive branch on the legality of federal agency activities and the legal implications of legislative proposals and provides interpretations of laws governing public expenditures to government agencies. In addition, GAO's OGC renders thousands of decisions each year to resolve protests from bidders for government contracts.

## Financial Resources and Results of Operations

The accompanying statements summarize GAO's financial position, disclose the cost of operations and the changes in net position during fiscal years 1992 and 1991, present all significant cash flows during the 2 fiscal years, and provide a comparison of budget and actual expenses.

The cost of operating GAO during these fiscal years was about \$438 million and \$400 million, respectively. More than 98 percent of its operations were financed through appropriations from the Congress. The remainder came from reimbursements from other government agencies. The percentage of operating expenses financed by appropriations has been about the same for the last 5 years.

During fiscal year 1992, expenses for salaries and related costs totaled \$325 million, or 74 percent of GAO's operating expenses. The remaining 26 percent included travel, rent, utilities, automated data processing, and other items. This supported 5,062 staff-years; most staff were employed in carrying out GAO's audit and evaluation activities. This staffing level has remained relatively constant during the past decade.

## Investments to Improve Productivity

In 1992, GAO continued to give high priority to improving staff effectiveness and productivity by investing in its people and its working environment. Examples of these investments include

- a strong commitment to continuing professional education programs to maintain and enhance staff proficiency;
- expanded application of technology and electronic communications to basic work processes to enhance capabilities, improve overall productivity and efficiency, and accommodate growing workloads;
- renovation and asbestos removal for the 41-year-old GAO building and other office space improvements and renovations for regional offices; and

- continued focus on quality management to identify ways to improve overall performance and service to GAO's customers.

## Internal Control Initiatives

GAO maintains a system of internal control to provide reasonable assurance that its assets are protected, transactions are properly executed and recorded, and operations are conducted in accordance with established policies and procedures. Also, GAO's accounting system conforms in all material respects with the principles, standards, and related requirements contained in title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. GAO is firmly committed to the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and ensures compliance with the act's objectives through

- a senior-level internal control advisory committee to provide policy oversight and guidance,
- a management plan to ensure that internal controls throughout the organization are evaluated systematically, and
- an internal review program to show that GAO's quality controls are providing reasonable assurance that its audit and evaluation work conforms with applicable professional standards and related GAO requirements.

## Improvements in Tracking Progress on Mandated Work

To monitor its progress toward completing specific assignments, GAO uses an automated Mission and Assignment Tracking System to maintain an inventory of all audits and evaluations mandated or requested by the Congress. In 1992, GAO reviewed its system for tracking progress on mandated work and determined that improvements were needed.

GAO has already taken steps to ensure that all mandated work is appropriately identified and entered into the system. GAO is also improving certain aspects of its tracking system so that (1) more complete information on the status of mandated work is reported to management and (2) reports on mandated work are reviewed centrally on a periodic basis.

## Internal Control Weaknesses at the National Finance Center

GAO's payroll processing is performed under contract with the Department of Agriculture's National Finance Center (NFC), located in New Orleans, Louisiana. NFC also processes payroll for many other federal agencies.

GAO has controls in place to ensure the integrity of employee payroll files and time and attendance processing. However, GAO relies on NFC to accurately compute employee payroll deductions and tax withholdings and to file reports to benefit providers and tax authorities. GAO also relies on NFC to ensure an adequate general system of controls over NFC's operations, secure data transmission channels, and protect access to sensitive data.

GAO depends on the work of NFC's independent auditors to ensure that its payroll control objectives at NFC are met. Recent examinations of the internal control structure at NFC have identified certain material weaknesses in NFC's internal controls. These weaknesses at NFC may potentially allow errors or irregularities to occur and not be detected quickly.

Because GAO's accounting system includes several additional key controls, it is highly unlikely GAO would fail to detect a misuse or misappropriation of GAO's funds in amounts that are material to GAO's principal statements. Nonetheless, as a user of NFC's payroll system, GAO is working to ensure the appropriate attention from NFC and has been assured that NFC will act during 1993 to resolve the issues raised in these audit reports.

## Financial Management Initiatives

During 1992, GAO conducted a number of internal financial management initiatives. Several of these are summarized below.

- GAO decentralized additional financial management functions to all field offices during the year, including the obligation and payment of training orders and invoices, the replenishment of field office imprest funds, and the payment of transportation invoices. In addition, the field offices were provided with the capability of requesting and printing various financial management reports on site, thus improving their ability to effectively manage their organizations.
- GAO began implementing a travel services contract agencywide to provide high-quality, reliable worldwide travel services for GAO staff. This contract will lead to more efficient travel operations.
- GAO implemented an agencywide program to provide GAO travelers with automated teller machine (ATM) cash travel advances via government-furnished credit cards. The use of ATM advances has reduced the number of imprest fund transactions, the number and dollar amount of outstanding travel advances, and the number of travel advance accounts requiring maintenance and reconciliation.
- GAO initiated testing and installation of the latest release of the Federal Financial System (FFS), a commercial software package used as the basis for the agency's Financial Management System. It provides enhanced security and control features, new management reports, improved documentation, and

streamlined data entry procedures.

- GAO converted to a new property management system that will enhance internal controls over inventory and accountable property.
- GAO used staff rotations and training programs to increase the financial management expertise of internal accounting and field staff.

## External Advice and Monitoring

External advice and monitoring is an important component of GAO's quality control program. In late 1992, the Comptroller General established an Audit Advisory Committee to provide advice on GAO's financial operations. The Committee is composed of three distinguished individuals from outside GAO:

- Sheldon Cohen (Chairman) is a CPA and an attorney and senior partner with Morgan, Lewis & Bockius; former IRS Commissioner and Chief Counsel; and Secretary and Trustee of the National Academy of Public Administration.
- Alan B. Levenson is an attorney and senior partner 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.

The Audit Advisory Committee will monitor, review, and report 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 laws and regulations that could significantly impact GAO's operations.

GAO also has a Quality Control Review Board, consisting of several distinguished individuals from outside GAO, to provide external perspectives and advice on the effectiveness of GAO's quality assessments of its audit and evaluation work:

- 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 CPA and the Arthur Young Professor of accounting at Columbia University, former Chief Accountant of the Securities and Exchange



Commission (SEC), 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 was 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 Rhinelander is an attorney with Shaw, Pittman, Potts, and Trowbridge; he is a former Under Secretary of the U.S. Department of Housing and Urban Development; former General Counsel of the U.S. Department of Health, Education, and Welfare; and has held other legal positions, including adviser to the SALT I delegation, the State Department, and the Secretary of the Navy.

Finally, GAO is seeking congressional support for establishing an independent external peer review process. This would provide added assurance that GAO's internal quality control system is operating effectively and that GAO's audit work is adhering to applicable policies, procedures, and auditing standards.

## Performance Information

Several important performance measures are discussed earlier in this report, such as the measurable financial benefits from GAO's work, the percent of GAO's recommendations implemented, and the number of products produced. Additional GAO performance measures are addressed in a separate publication titled 1992 Annual Report of Key Performance Indicators. GAO's ongoing quality management initiative is expected to lead to further refinements and improvements in GAO's measurement system.

Other publications providing summaries of GAO's work and the status of its recommendations include the Abstracts of Reports and Testimony: Fiscal Year 1992; Index of Reports and Testimony: Fiscal Year 1992; Supplement to the Comptroller General's 1992 Annual Report: Summary Tables of GAO Personnel Assigned to Congressional Committees, Fiscal Year 1992; and the Annual Report to the Chairmen, House and Senate Committees on Appropriations, on the Status of Open Recommendations.

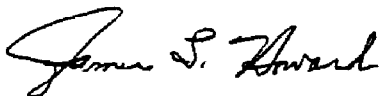
## Audit of GAO's 1992 Principal Statements

The audit of GAO's 1992 principal statements was performed by the independent auditors KPMG Peat Marwick. The independent auditors' report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the principal statements.

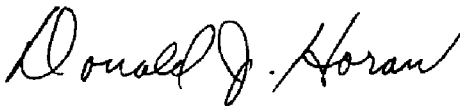
While GAO is not subject to the Chief Financial Officers (CFOs) Act of 1990 or the Federal Managers' Financial Integrity Act of 1982, GAO is fully committed to the principles and objectives of both acts and has elected to comply with their requirements. GAO's 1992 financial statements have been prepared with full consideration of the requirements of the CFOs Act of 1990. OMB issued new requirements for form and content (Bulletin 93-02) and audit (Bulletin 91-14) of 1992 financial statements. Implementation of these requirements has changed the content of the financial statements and independent auditors' reports. The significant format changes in the principal statements include the following:

- Statements of Financial Position — Assets are classified as financial and nonfinancial, liabilities are classified as funded and unfunded, and funds that would be required in the future to liquidate unfunded liabilities are reported as an offset to net position.
- Statements of Operations and Changes in Net Position — Expenses incurred are classified and reported by major type of program. Programs are defined along organizational and issue area lines. Operating expenses by object classification are disclosed in the notes to the principal statements.
- Statements of Cash Flows — Replaces the statement of changes in financial position.
- Statements of Budget and Actual Expenses — This is a new statement that replaces the 1991 financial statement footnote reconciling budget and accrual basis information.

The three independent auditors' reports from 1991 have been consolidated into one report and have been modified to reflect new audit work to comply with the CFOs Act.



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, 1992 and 1991

<i>Dollars in Thousands</i>	1992	1991
<b>Assets</b>		
<b>Financial resources</b>		
Funds with U.S. Treasury	\$82,095	\$66,204
Travel and other advances	1,743	669
Accounts receivable	<u>3,765</u>	<u>2,636</u>
<b>Total financial resources</b>	<b>87,603</b>	<b>69,509</b>
<b>Nonfinancial resources</b>		
Property and equipment, net of \$26,549 and \$19,105 accumulated depreciation in 1992 and 1991, respectively	43,003	39,528
Supplies inventory	<u>631</u>	<u>671</u>
<b>Total nonfinancial resources</b>	<b>43,634</b>	<b>40,199</b>
<b>Total Assets</b>	<b>\$131,237</b>	<b>\$109,708</b>
<b>Liabilities</b>		
<b>Funded liabilities</b>		
Salaries and benefits	\$22,625	\$18,861
Accounts payable	15,905	12,929
Employee travel	1,585	1,792
Other liabilities	<u>4,192</u>	<u>3,683</u>
<b>Total funded liabilities</b>	<b>44,307</b>	<b>37,265</b>
<b>Unfunded liabilities</b>		
Accrued annual leave	27,850	25,858
Comptrollers' General retirement plan	1,699	1,623
Capital leases	<u>439</u>	<u>519</u>
<b>Total unfunded liabilities</b>	<b>29,988</b>	<b>28,000</b>
<b>Total Liabilities</b>	<b>\$74,295</b>	<b>\$65,265</b>
<b>Net Position</b>	<b>56,942</b>	<b>44,443</b>
<b>Total Liabilities and Net Position</b>	<b>\$131,237</b>	<b>\$109,708</b>

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, 1992 and 1991**

<i>Dollars in Thousands</i>	<i>1992</i>	<i>1991</i>
<b>Operating Expenses by Program Area</b>		
National Defense, Security and International Relations, and Other Related Issues	\$96,467	\$87,992
Energy, Agriculture, Environment, Housing, Transportation, and Natural Resources Issues	83,386	77,586
Justice, Tax Policy, Financial Institutions, and General Management Issues	76,230	70,938
Education and Employment, Health Care, and Income Security Issues	58,189	52,610
Agency Financial Audits, Systems, and Management Issues	53,270	47,112
Information Management and Technology Issues	26,744	26,189
Comptroller General Decisions and Opinions, and Legal Support	22,594	20,380
Program Evaluation Methodology and Standards	11,100	9,920
Special Investigations and Investigative Support	5,674	3,933
Senior Management and Staff	4,102	3,789
<b>Total Operating Expenses</b>	<b>437,756</b>	<b>400,449</b>
<b>Financing Sources</b>		
Appropriations expended	428,064	388,191
Rents and reimbursable services, net of \$4,353 and \$2,129 remittable to U.S. Treasury in 1992 and 1991, respectively	7,624	9,441
<b>Total Financing Sources</b>	<b>435,688</b>	<b>397,632</b>
<b>Expenses to be funded by future appropriations</b>	<b>\$(2,068)</b>	<b>\$(2,817)</b>
<b>Increase in capitalized and unexpended appropriations</b>	<b>14,567</b>	<b>22,818</b>
<b>Net Position, beginning of year</b>	<b>44,443</b>	<b>24,442</b>
<b>Net Position, end of year</b>	<b>\$56,942</b>	<b>\$44,443</b>

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, 1992 and 1991**

<i>Dollars in Thousands</i>	<i>1992</i>	<i>1991</i>
<b>Cash Flows Used by Operating Activities</b>		
Expenses to be funded by future appropriations	\$(2,068)	\$(2,817)
<b>Adjustments Affecting Cash Flows</b>		
Appropriations expended	(428,064)	(388,191)
Decrease (increase) in receivables and advances	(2,203)	1,659
Decrease (increase) in supplies inventory	40	(162)
Increase in funded liabilities	7,042	2,914
Increase in unfunded liabilities	1,988	2,518
Depreciation	8,705	6,703
Loss on disposal of capital assets	75	46
<b>Total adjustments</b>	<b>(412,417)</b>	<b>(374,513)</b>
<b>Net Cash Used by Operating Activities</b>	<b>(414,485)</b>	<b>(377,330)</b>
<b>Cash Flows Used by Investing Activities</b>		
Acquisition of property and equipment	(12,271)	(15,397)
<b>Cash Flows from Financing Activities</b>		
Appropriations	442,647	409,242
Restorations	-	1,779
<b>Net Cash Provided by Financing Activities</b>	<b>442,647</b>	<b>411,021</b>
<b>Net Cash Provided by Operating, Investing and Financing Activities</b>	<b>15,891</b>	<b>18,294</b>
<b>Funds with U.S. Treasury, beginning of year</b>	<b>66,204</b>	<b>47,910</b>
<b>Funds with U.S. Treasury, end of year</b>	<b>\$82,095</b>	<b>\$66,204</b>

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, 1992 and 1991**

<i>Dollars in Thousands</i>	<i>1992</i>	<i>1991</i>
<b>Budget resources</b>	\$454,036	\$420,462
<b>Budget obligations</b>	(447,922)	(416,697)
<b>Total unobligated appropriations</b>	<b>\$6,114</b>	<b>\$3,765</b>

**Budget Reconciliation**

Total operating expenses	\$437,756	\$400,449
Rents and reimbursable services, net of \$4,353 and \$2,129 remittable to U.S. Treasury in 1992 and 1991, respectively	(7,624)	(9,441)
Expenses to be funded by future appropriations which are recognized in the principal statements but not in budgetary accrued expenditures	(2,068)	(2,817)
Net effect of capitalizing assets in the principal statements which are recognized as accrued expenditures for budgetary purposes	3,531	9,110
<b>Total Budgetary Accrued Expenditures</b>	<b>\$431,595</b>	<b>\$397,301</b>

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 activity of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The 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 Budget and Accounting Act of 1950, GAO published title 2 of its Policy and Procedures Manual for Guidance of Federal Agencies, which codified what it considered to be the relevant generally accepted accounting principles to be implemented by all federal departments and agencies in the preparation of their annual principal statements. Under the authority of the CFOs Act of 1990, GAO participated with the Office of Management and Budget (OMB) and the Treasury Department (Treasury) in the establishment of the Federal Accounting Standards Advisory Board (FASAB). The FASAB was organized to make recommendations regarding the accounting standards to be implemented by certain federal agencies. The resulting standards will be concurrently issued by GAO and OMB. In the interim, and in accordance with FASAB's recommendation that agencies continue to prepare financial statements using their current accounting policies, GAO continues to prepare its principal statements based upon the accounting principles included in title 2, and consistent with OMB Bulletin No. 93-02, Form and Content of Agency Financial Statements.

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 1992 principal statements have been prepared in accordance with the requirements of the CFOs Act of 1990 and OMB Bulletin No. 93-02. Implementation of these requirements resulted in significant changes in the form and content of the principal statements. Significant changes include:

Statements of Financial Position - Assets are classified as financial and nonfinancial; liabilities are classified as funded and unfunded; and funds that would be required in the future to liquidate unfunded liabilities are reported as an offset to net position instead of as an asset.

Statements of Operations and Changes in Net Position - Expenses incurred are classified and reported by major type of program versus by object classification. GAO's major programs are defined along organizational and issue area lines. Operating expenses by object classification are disclosed in Note 3.

Statements of Cash Flows (SOCF) - This statement replaces the statement of changes in financial position. The SOCF is prepared using the indirect method.

Statements of Budget and Actual Expenses - This is a new statement that replaces the 1991 financial statement footnote reconciling budget and accrual basis information.

### *Funds With U.S. Treasury*

GAO does not maintain cash in commercial bank accounts. Rather, its 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 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.

*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 unfunded liabilities. 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.

**Note 2.  
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>1992</i>	<i>1991</i>
<b>Capitalized assets, net of capital lease liability</b>	\$43,195	\$39,680
<b>Unliquidated obligations</b>	37,182	28,479
<b>Unobligated appropriations</b>	6,114	3,765
<b>Future appropriations due</b>	(29,549)	(27,481)
<b>Net Position</b>	<b>\$56,942</b>	<b>\$44,443</b>

The increase in capitalized assets from fiscal year 1991 to 1992 of \$3,515,000 resulted from purchases of computers, other equipment, and improvements less depreciation. Unliquidated obligations represent purchase commitments. Unobligated appropriations in fiscal year 1992 of \$6,114,000 resulted from changes required by the National Defense Authorization Act for fiscal year 1991 (Public Law 101-510, dated November 5, 1990). With the enactment of the legislation, Treasury permitted agencies to retain both their unliquidated obligations and unobligated appropriations for 5 years after the year of availability. Future appropriations due represent aggregate amounts of congressionally authorized long-term liabilities (annual leave and retirement benefits for Comptrollers General) that are expected to be funded by future years' appropriations.



### Note 3. Operating Expenses

Expenses incurred in the Statements of Operations and Changes in Net Position are classified and reported by major type of program versus by object classification. 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. Approximately \$241,500,000 and \$222,700,000 of expenses were allocated to programs in fiscal years 1992 and 1991, respectively. Operating expenses by object classification are shown in the following schedule.

#### Operating Expenses by Object Classification

<i>Dollars in Thousands</i>	<i>1992</i>	<i>1991</i>
<b>Object Classification</b>		
Salaries and benefits	\$325,029	\$299,848
External training	3,225	2,672
Travel	21,124	20,377
Rent, communications and utilities	32,339	24,797
Computer and other ADP services	17,246	17,219
Other contract services	20,198	18,822
Supplies and materials	5,552	4,573
Printing and document copying	3,501	4,055
Depreciation	8,705	6,703
Other	837	1,383
<b>Total Operating Expenses</b>	<b>\$437,756</b>	<b>\$400,449</b>

### Note 4. Budget and Actual Expenses

The Statements of Budget and Actual Expenses provide a comparison of total actual expenses of all programs with budget authority for such programs. Since GAO's program designation in the Statements 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. Budget resources include GAO's new budgetary authority (\$442,647,000); available unobligated balances from fiscal year 1991 (\$3,765,000); and earned reimbursements (\$7,624,000). Budget obligations include budgetary accrued expenditures (\$431,595,000); the net increase in unliquidated obligations from fiscal year 1991 to 1992 (\$8,703,000); and earned reimbursements. The difference between total budgetary resources and obligations incurred represents GAO's unobligated appropriations of \$6,114,000. The statements also provide a reconciliation of the actual expenses incurred on the accrual basis to 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.

The following schedule reconciles GAO's congressionally approved appropriations to budgetary accrued expenditures:

<i>Dollars in Thousands</i>	<i>1992</i>	<i>1991</i>
Current year appropriations	\$442,647	\$409,242
Restoration of prior year budget authority	-	1,779
Increase in unliquidated obligations	(8,703)	(9,955)
Increase in unobligated appropriations	(2,349)	(3,765)
<b>Total Budgetary Accrued Expenditures</b>	<b>\$431,595</b>	<b>\$397,301</b>

**Note 5.  
Property and  
Equipment, Net**

The composition of property and equipment is as follows:

<i>Dollars in Thousands</i>			
Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$2,506	\$13,158
Land	1,191	-	1,191
Building improvements	19,196	8,981	10,215
Computer and other equipment, and ADP software	25,823	10,217	15,606
Leasehold improvements	5,460	3,624	1,836
Assets under capital lease	2,218	1,221	997
<b>Total Property and Equipment</b>	<b>\$69,552</b>	<b>\$26,549</b>	<b>\$43,003</b>

**Note 6.  
Leases**

*Operating Leases*

GAO leases office space from the General Services Administration and the State Department 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 1992 and 1991 amounted to approximately \$21,400,000 and \$17,600,000, respectively. GAO's estimated future minimum lease payments are as follows:

<i>Dollars in Thousands</i>	
Fiscal Year end September 30	Total
1993	\$22,458
1994	18,086
1995	15,611
1996	13,060
1997	6,111
Thereafter	6,965
<b>Total estimated future lease payments</b>	<b>\$82,291</b>

*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. Lease payments of approximately \$439,000 and \$519,000 remained to be paid on these leases as of September 30, 1992 and 1991, respectively.

**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 CSRS, FERS, and FICA and matches employee contributions to the savings component of FERS up to 5 percent of basic pay, but it has no liability for future payments to employees under these programs. GAO's costs for employee retirement programs

## NOTES TO PRINCIPAL STATEMENTS

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during fiscal years 1992 and 1991 were approximately \$36,080,000 and \$31,920,000, 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 1992 and 1991 amounted to approximately \$10,798,000 and \$9,816,000, 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 \$1,699,000 as of September 30, 1992, and \$1,623,000 as of September 30, 1991.

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### **Note 8. 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 Americans who die abroad. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trusts. Trust assets under administration by GAO aggregated approximately \$6,484,000 on September 30, 1992. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1992, receipts and disbursements in these funds amounted to \$2,294,000 and \$1,353,000, 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 1992 and 1991, GAO authorized approximately \$899,000,000 and \$506,000,000, 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.

# INDEPENDENT AUDITORS' REPORT

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Comptroller General of the United States:

We audited the General Accounting Office's Principal Statements as of and for the year ended September 30, 1992, and performed a related study and evaluation of its system of internal control.

In our opinion:

- The 1992 Principal Statements are presented fairly, in all material respects; and
- The system of internal control in effect at September 30, 1992, was sufficient to meet the control objectives identified below.

We found:

- No material conflicts with management's report on internal controls voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No material noncompliance with the 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 1992 Principal Statements including the accompanying notes, on pages 23 through 31, present fairly, in all material respects, the General Accounting Office's:

- financial position as of September 30, 1992;
- results of operations and changes in net position;
- cash flows; and
- budget and actual expenses for the year then ended

on the basis of accounting described in Note 1 to the Principal Statements, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Principal Statements of the General Accounting Office as of September 30, 1991, were audited by other auditors whose report thereon dated December 18, 1991, expressed an unqualified opinion on those statements.

As described in Note 1, in 1992 the General Accounting Office adopted the provisions of Office of Management and Budget (OMB) Bulletin 93-02,

"Form and Content of Federal Financial Statements", which require the presentation of a Statement of Cash Flows, a Statement of Budget and Actual Expenses, and certain other disclosures.

## OPINION ON INTERNAL CONTROLS

We have made a study and evaluation of the General Accounting Office's system of internal control 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 use or disposition; and
- revenue and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.

In our opinion, the system of internal control in effect at September 30, 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors and irregularities in amounts that would be material to the Principal Statements. In addition, nothing came to our attention to indicate that the General Accounting Office's report on internal controls dated June 25, 1992, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), conflicts materially with the results of our study and evaluation of the system of internal control.

***Internal Controls at the National Finance Center.*** Recent examinations of the National Finance Center (NFC), a federal information processing center that performs substantial payroll processing functions for the General Accounting Office, identified certain weaknesses in NFC's internal controls:

- An independent accountant's report dated September 30, 1991 found that "Program changes (at NFC) are not adequately documented and controlled."
- An audit report by NFC's Inspector General dated September 30, 1992 found that "Improvements are needed in the security controls over IDMS." The report further stated that "security vulnerabilities existed (in IDMS) that would allow unauthorized access and modification to payroll/personnel data." IDMS is a database management system software package which NFC uses to manage and maintain federal agency employee payroll and personnel information.

These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the 1992 Principal Statements, and these conditions do not affect our opinions on these Principal Statements and the system of internal control.

## **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.

## **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 a system of internal control; and
- complying with applicable laws and regulations.

Further, management has elected to comply with substantially all of the provisions of FMFIA.

Our responsibility is to express opinions on the Principal Statements and system of internal control based on our audit and study and evaluation, respectively. Accordingly, we planned and performed the audit 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) the system of internal control is sufficient to meet the control objectives stated previously insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the Principal Statements. We are also responsible for testing compliance with provisions of applicable laws and regulations.

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;
- evaluated and tested 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;
- 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,
  - GAO Personnel Act of 1980,
  - Federal Employees' Compensation Act,
  - Federal Employees' Health Benefits Act of 1959, and
  - Federal Employees' Group Life Insurance Act of 1980; and
- at management's request, compared the General Accounting Office's most recent FMFIA report on internal controls dated June 25, 1992 with our study and evaluation of the system of internal control.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on the system of internal control. Because of inherent limitations in any system of internal control, losses, noncompliance or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluations 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 audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards, as issued by the Comptroller General of the United States, and OMB Bulletin 91-14, "Audit Requirements for Federal Financial Statements." Our study and evaluation of the system of internal control in effect at September 30, 1992, was conducted in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audit and our study and evaluation 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" 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, his report, or the other information require revision.

*KPMG Peat Marwick*

December 18, 1992  
Washington, DC



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