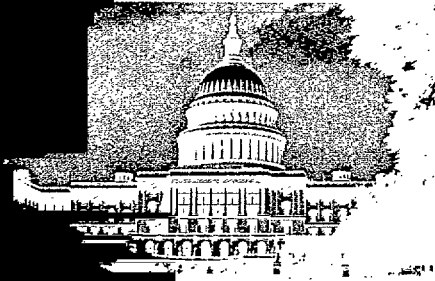


# Comptroller General's 1987 Annual Report





tisan  
h  
sts  
com-  
bers  
e and  
GAO  
ac-  
g,  
ment  
gned  
and  
da-  
ficient  
ern-

## Message From the Comptroller General

Two hundred years ago, the Founding Fathers gathered in Philadelphia to consider revisions to the Articles of Confederation, the basis for the existing government of the United States. At that time, the nation's poor financial condition—trade imbalances, deficient domestic and international credit, the lack of a national currency and banking system, and other problems—was foremost in their minds. Today, as we celebrate the bicentennial of the Constitution, problems with the financial system are again prominent among the challenges to government. Our government continues to struggle with the budget, as it has since the deficit first broke the \$100 billion mark in 1982. The deficit declined markedly in 1987, reflecting an apparently temporary acceleration in tax revenues. But a basic imbalance remains between the programs and services we expect from government and the taxes we collect to pay for them.

In addition to causing the public debt's monumental growth, the budget deficit is also one of the primary causes of our international trade deficit. These twin deficits threaten our future standard of living. The threat will grow the longer they continue.

In 1987, GAO issued 767 reports and testified before the Congress 161 times. Much of this work discussed ways to perform essential functions at lower cost. We suggested specific strategies for improving efficiency and managing resources more carefully. We also identified budget items that could be delayed or eliminated without affecting programs, and we highlighted major program choices that could help stretch limited resources.

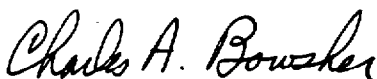
Improved efficiency alone cannot solve the deficit problem, but every dollar helps.

We made over 900 recommendations and identified \$59 in financial benefits for each dollar of GAO's budget spent, and we contributed to legislative and executive actions that resulted in \$18.2 billion worth of financial benefits for American taxpayers.

Our responsibilities also included telling the Congress and the American people about major threats to the budget: programs that will cost a great deal more than is currently budgeted. On a number of occasions, GAO pointed out the widening gap between Pentagon spending plans and the budgets available to finance them. We reported the rapidly deteriorating financial condition of the Federal Savings and Loan Insurance Corporation and the Farm Credit System, disclosing the billions of dollars of assistance they will require.

Another basic theme of GAO's work in 1987 was government accountability. This issue was highlighted by the investigation of the Iran-Contra Affair, in which GAO played a key support role. But other secret programs where waste and inefficiency might be shielded from public scrutiny still exist. GAO is prepared to help ensure that the Congress is informed and can correct mistakes before they get out of hand, but without compromising the secrecy of the programs.

GAO's staff are justifiably proud of their contributions in 1987. The continuing challenge is to build on this success for the future.



Charles A. Bowsher  
Comptroller General  
of the United States



*GAO's General Counsel and Assistant Comptrollers General for Human Resources and for National Security and International Affairs confer with Congressman Jack Brooks, and members of GAO's congressional liaison staff confer with Senator Warren Rudman.*

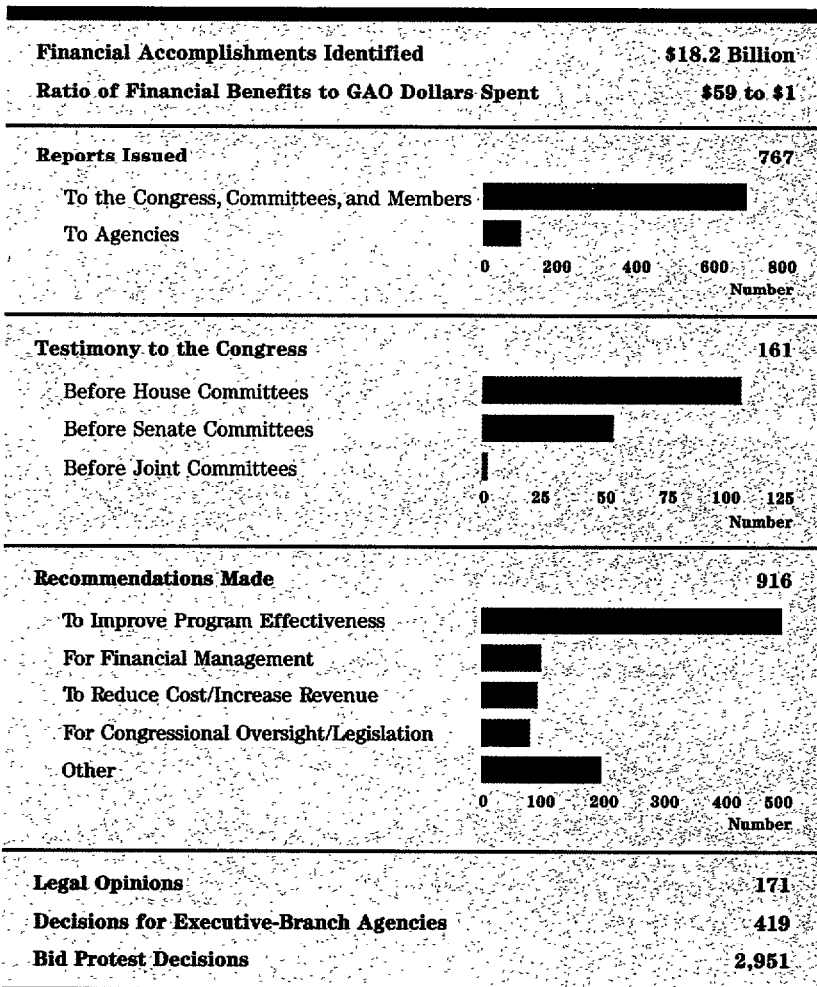


**R**ead a newspaper dated between October 1, 1986, and September 30, 1987; browse through the *Congressional Record*; watch a tape of an evening news show, and you will see that it was a rare day in fiscal year 1987 that GAO's work was not featured. GAO testifies and provides reports to the Congress on virtually every issue receiving congressional scrutiny. Its 5,100 staff, housed at headquarters and in regional and foreign offices, provide an unparalleled capability to collect information first-hand. Whether the information exists in Rome, New York; Rome, Georgia; or Rome, Italy, GAO's staff are nearby.

In 1987, GAO's audits, evaluations, and investigations, over 80 percent of which were requested by the Congress, frequently led to congressional hearings on oversight of federal programs, changes in program appropriations, or new or revised program legislation. In many instances, federal agencies took action to correct problems identified by GAO. As shown in the chart, the ratio of financial benefits to GAO dollars spent is high, but it does not tell the whole story. GAO also helps to bring about many improvements in government that are not readily measurable in dollars.

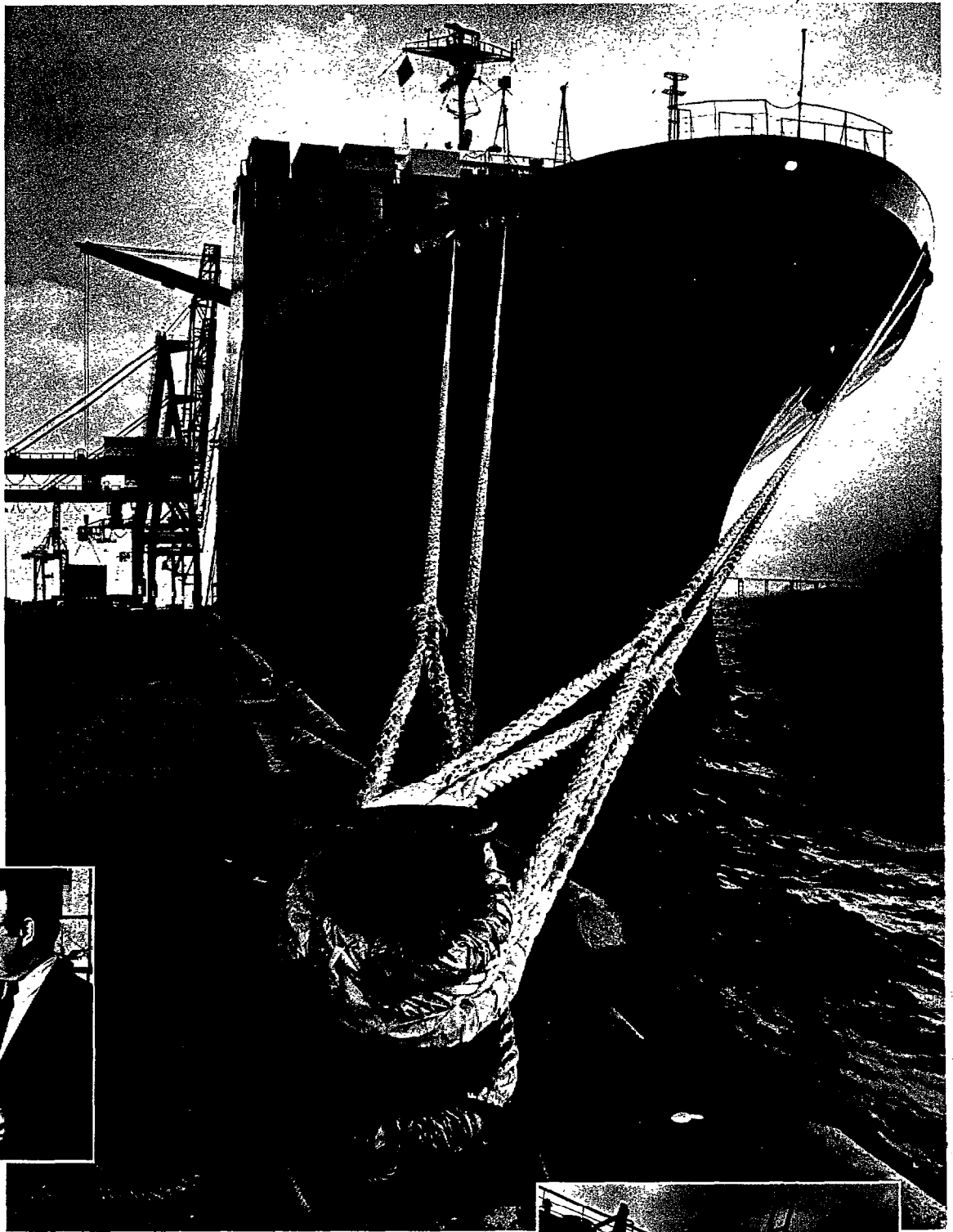
The international trade deficit, the Iran-Contra Affair, insider stock trading, the nation's financially troubled lending institutions, gaps in health care protection against catastrophic illness—these are only a few of the major issues that dominated congressional attention in fiscal year 1987. The articles in the following section highlight not only the breadth of issues that GAO confronts to meet congressional needs but also the ways in which GAO's work is used in congressional decision-making.

**Fiscal Year 1987 Highlights**



*"...I believe that we as a society have finally come to the realization that international trade has a direct impact on the success of our domestic economy."*

*Comptroller General  
Charles A. Bowsher*



**The nation's trade and budget deficits were the subjects of a major GAO report in 1987. The deficit in motor vehicle trade alone reached \$52 billion. Here Representative Bill Frenzel confers with GAO's Senior Associate Director for International Trade, Energy, and Finance on causes of the trade deficit.**



## Reducing the International Trade Deficit

As its trade deficit reached \$156.2 billion in 1986, the United States became the world's largest debtor nation. Left unchecked, trade deficits of this magnitude will restrict the government's freedom to foster stable economic growth and will reduce the standard of living for future generations of Americans.

This past year, the United States engaged in a national policy debate over causes of and solutions to the trade deficit. This debate focused on developing perhaps the most far-reaching trade legislation ever considered by the Congress. At issue was whether this bill should aim more at strengthening the international competitiveness of American industry or at protecting it from foreign competition. At stake was not only the health of the U.S. economy but also the international trading system that the United States had worked so hard to develop during the past 40 years.

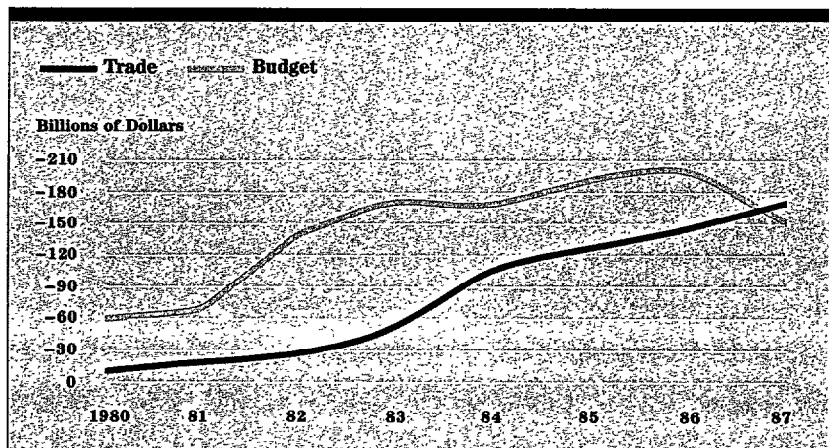
GAO was at the forefront of this debate, warning against unwarranted protectionism and arguing that the primary cause of the U.S. trade deficit is the federal budget deficit. In a major report, GAO explained that the budget deficits of the 1980s caused the United States to consume more than it produced and to import the difference. Heavy government borrowing increased interest rates, which attracted foreign investment. Foreign investors increased their demand for dollars, drove up the value of the dollar, and, in the process, made U.S. goods more expensive in the world marketplace. Foreign competitors became entrenched, and, despite recent declines in the value of the dollar, the trade deficit has remained large.

Despite the evidence that unfair foreign trade barriers did not cause the sharp rise in the trade deficit, the deficits did

create pressure to protect U.S. industry and workers. While unfair foreign trade practices present serious problems, GAO reported that protectionist policies, such as import surcharges, would likely backfire. Other countries would copy the surcharge or close their markets to U.S. exports, the most competitive U.S. industries would suffer, and everyone's costs would increase.

However, recognizing that U.S. long-term interests do require a vigorous effort to oppose unfair foreign trade practices, GAO has identified strategies to strengthen government efforts to combat such practices. For example, GAO suggested ways to improve government efforts to stop imports of counterfeit goods, enforce U.S. rights under international trade agreements, and combat foreign subsidies for agricultural exports. Both House and Senate versions of omnibus trade legislation include many of these suggestions.

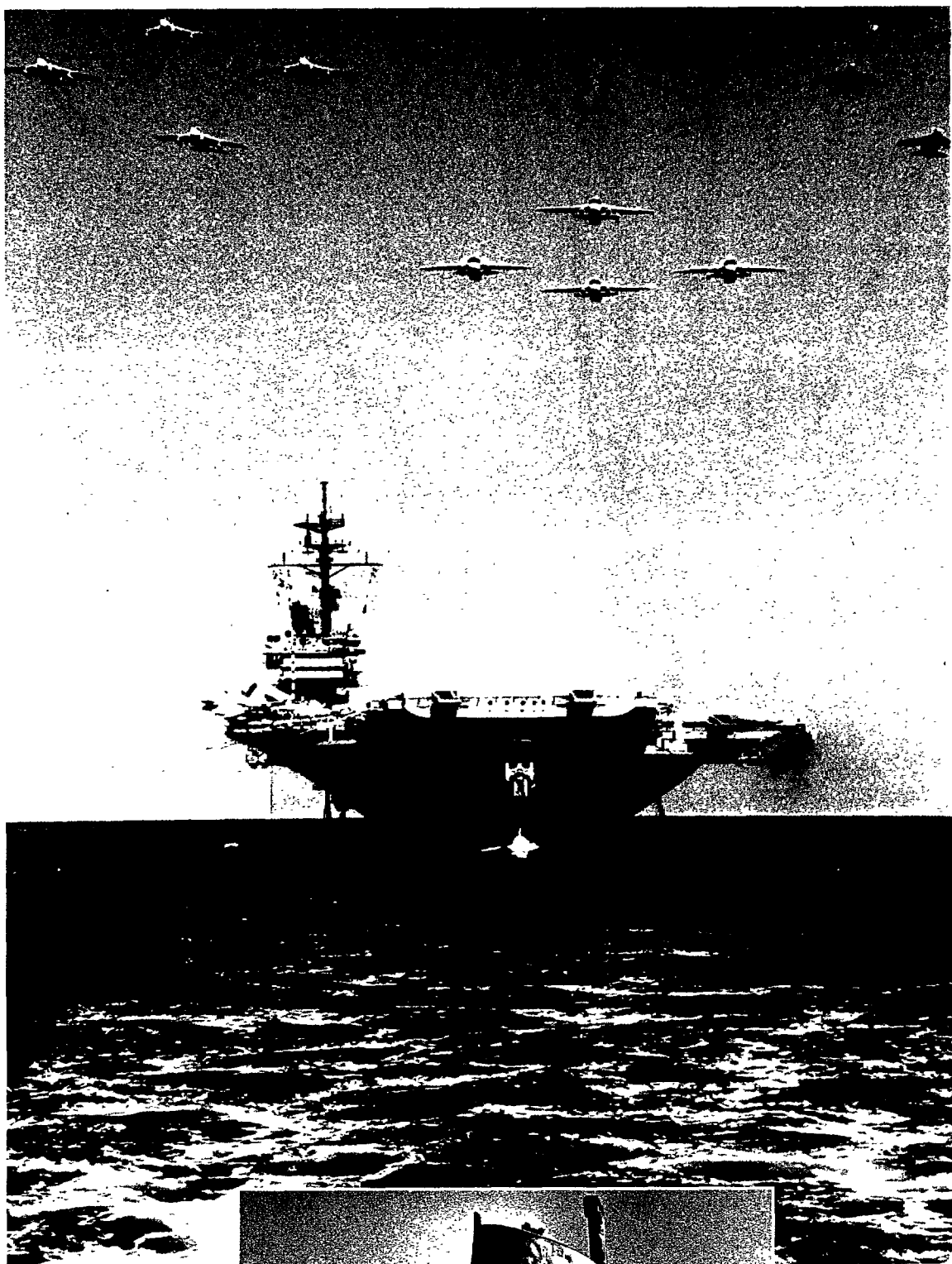
### Twin Deficits



*“Today, there is no rational system whereby the Executive Branch and the Congress reach... agreement on national military strategy, the forces...and the funding that should be provided... [given] the... economy and competing claims on national resources.”*

*Final Report to the President, President's Blue Ribbon Commission on Defense Management*

**National defense takes the biggest single share of the federal budget and of GAO's auditing resources. Here staff from GAO's Boston regional office participate in evaluating Navy programs.**





## Tackling the Issue of Defense Affordability

While the United States will spend over \$2.5 trillion for defense in the 1980s, the budget deficit is ending the years of substantial defense budget growth. As the Congress struggles with the deficit, its Members are debating not only how much defense is needed but also how much is affordable. To complete modernization, the Army says it needs \$100 billion more than currently programmed. The Navy and Air Force also need billions more, and estimates for the full cost of the Strategic Defense Initiative (SDI) run into the hundreds of billions. Facing a \$200 billion budget deficit, the Congress has hard decisions to make among competing priorities. For information on how limited resources can be allocated effectively, the Congress often turns to GAO.

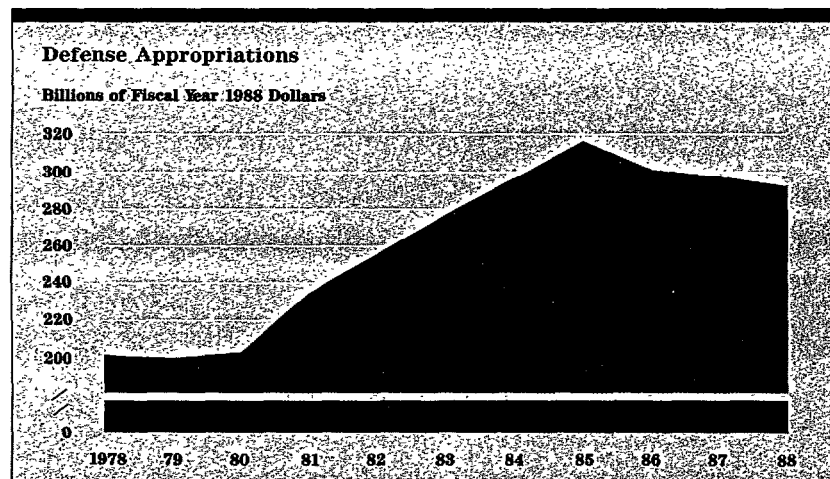
For example, on the basis of projected budget growth, the Army began to modernize by buying more M-1 tanks, Bradley fighting vehicles, attack helicopters, and other weapons while at the same time developing new and expensive systems, such as the LHX helicopter. GAO reported that modifying and upgrading existing helicopters offers an alternative to proceeding with the problem-plagued LHX.

When the Navy decided to expand to 600 ships, it expected continuing budgetary growth. The Navy will soon have 600 ships, but GAO reported in 1987 that the Navy will not have the mix of ships required for its announced maritime strategy. Without budgetary growth, planned procurements of three ship types—aircraft carriers, combatants, and submarines—could consume 80 percent of shipbuilding budgets, leaving few funds for mine sweepers or amphibious or support ships. GAO's report alerted the Congress to the tough decisions ahead as the Navy's future costs outstrip available resources.

Air Force priorities place tactical air wings, which support ground combat troops, behind strategic, readiness, and airlift programs. Tactical wings compete for funds with programs like the MX, AMRAAM, and the B-1 bomber. Forty wings, each with 100 aircraft, had been planned, but GAO reported that high costs and funding constraints have already cut that goal. Problems with new programs, such as the B-1—which GAO reported will cost \$6 billion more than anticipated and still will not accomplish its full mission—raise the issue of cutting back on troubled programs.

In 1988, GAO will continue to help the Congress allocate limited resources by providing information on questions such as: Is the Army's new forward-area air defense system affordable? Should the Air Force and the Navy continue separately developing stealth fighters? Do we need the full arsenal of strategic weapons currently in development—the MX, Trident, and Midgetman missiles and the B-1 and stealth bombers with their cruise missiles?

### The Rapid Defense Buildup of the 1980s Is Over



*"The GAO report... analyzing U.S. and Israeli cost estimates for the Lavi... raise[s] serious financial questions given projected annual costs, Israel's cap... on annual expenditures, the limited availability of U.S. assistance, and other... defense projects the Israelis seek to fund."*

*Representative  
Lee H. Hamilton*



**Israel's tough decision to cancel the Lavi was supported by analyses conducted by that country's State Comptroller as well as GAO.**

## The Lavi: A Case Study in Defense Affordability

Facing the difficult issue of defense affordability, in August 1987, Israel canceled the Lavi, a fighter aircraft being developed by Israel predominately with U.S. funding. Controversy had surrounded the Lavi and, as early as 1983, GAO had reported on the program's uncertain costs and had questioned the implications of using U.S. funding to develop a foreign weapons system.

Despite concerns, the Lavi program continued. With thousands of jobs and Israel's aircraft industry dependent on it, the Lavi became a symbol of Israeli pride. By April 1987, U.S. funds had paid for about 90 percent (\$1.3 billion) of the Lavi's development costs. Israel expected the United States to continue as the major funding source for the Lavi, but U.S. budgetary problems precluded increases in the assistance program, making potential cost increases an Israeli responsibility.

The United States believed that Israel had seriously underestimated the Lavi's costs and that, if Israel continued with the Lavi, it would have to delay or forgo other important defense requirements. The Departments of Defense and State strongly urged Israel to cancel the program. Israel disagreed with the U.S. cost estimate, contending that its own estimate was more accurate.

Early in 1987, GAO responded to a request of the Subcommittee on Europe and the Middle East, House Foreign Affairs Committee, to examine the U.S. and Israeli cost estimates. GAO concluded that, regardless of which estimate was used, projected annual outlays to produce the Lavi would exceed allocated funds and consume an increasingly larger share of Israel's defense resources. At 6-percent inflation, GAO estimated that the annual cash requirement would be more



than \$1 billion in 1990 and could exceed \$1.4 billion by the year 2000, as compared with the \$1.8 billion currently authorized annually for all U.S. military assistance to Israel.

In July 1987, Israel's State Comptroller issued a report criticizing the decision-making process leading to the program's continuation. He concluded that the "effects of the decision to develop and produce the 'Lavi' on other defense establishment programs were not examined, from the point of view of the total needs of the system as against multi-year budgets available to it."

In August 1987, the Israeli Cabinet narrowly decided to stop further development and production of the Lavi. After carefully considering Israel's limited ability to address its other military requirements and the strains funding the Lavi would put on Israel's overall economy, Israel made the trade-off.

*Comptroller General Bowsler confers with the Deputy State Comptroller of Israel.*

*"I commend GAO for being the first to put into perspective the budget implications of correcting serious safety and environmental problems at DOE defense facilities."*

*Representative Mike Synar*



**GAO's evaluations and testimony about nuclear defense safety issues were part of an effort to obtain independent oversight of DOE activities and help ensure that future defense needs are met. Here the Assistant Comptroller General for Resources, Community, and Economic Development testifies.**

## Dealing With the Nation's Aging Nuclear Defense Complex

**F**or more than 40 years, the federal government has produced nuclear material—such as plutonium and tritium—for defense purposes, primarily weapons and naval fuel. Today, the military's nuclear program consumes about 60 percent of the Department of Energy's (DOE) budget. Many of the 50 major facilities that produce and process nuclear material are now obsolete. Over the years, their operation has posed risks to the environment and to the health and safety of workers and the public. This situation presents difficult issues for the Congress, which must weigh the enormous cost of correcting the problems—estimated in the tens of billions of dollars—against competing budget priorities in a deficit-conscious era. The Congress must also ensure that nuclear facilities are operated and maintained safely without constraining their ability to produce essential nuclear weapons material.

Through 20 reports and frequent testimony, GAO has informed the Congress about the nuclear defense complex. In March 1987, GAO testified on the wide range of safety, environmental, and health problems it has identified in recent years. These problems include inadequate reactor safety systems to prevent or mitigate the consequences of a nuclear accident, poor management of hazardous and radioactive wastes, extensive soil and water contamination, and worker exposure to radiation.

The problems, coupled with the age of the facilities, raise serious concerns about DOE's future ability to meet national defense needs. At GAO's recommendation, DOE agreed in 1987 to develop a strategy to define the problems it faces and to present an action plan with time frames and cost estimates for correcting them. This road map for DOE's nuclear defense com-

plex will improve the Congress' ability to set priorities for the limited resources available.

As part of the strategy for the future, GAO testified in June 1987 that outside independent oversight is needed to ensure that DOE facilities operate safely. GAO then laid out key elements the Congress should consider in deliberating among the various bills introduced in 1987 to provide that oversight.

Even with DOE's strategic plan to help determine priorities for limited resources and an independent oversight organization to monitor the safety of DOE's nuclear facilities, the Congress may not be confident that production, safety, and environmental goals can be met concurrently. In 1988, GAO will continue to help the Congress examine DOE's nuclear defense complex, potentially one of the more dangerous industrial operations in the world but also one that is essential for national defense.

### DOE's Nuclear Defense Establishment— Over 50 Facilities at 16 Sites



*"The confusion, deception, and privatization which marked the Iran-Contra Affair were the inevitable products of an attempt to avoid accountability."*

*Report of the Congressional Committees Investigating the Iran-Contra Affair*



**GAO assisted the Senate and House select committees investigating the Iran-Contra Affair. Here GAO staff pose with Senator Daniel K. Inouye; former presidential security adviser John Poindexter testifies.**

## Balancing Secrecy and Accountability

**W**hen the Iran-Contra Affair gripped the nation's attention in 1987, controversy centered on whether government powers were being exercised without accountability to the Congress or the public. Ensuing investigations brought into sharp focus the long-standing dilemma confronting U.S. leaders: how to safeguard the nation's secrets within the constitutional system of checks and balances.

The Congress has recognized the need for secrecy in certain government activities, such as highly classified weapons development programs, sensitive dealings with foreign governments, and covert intelligence operations designed to advance U.S. interests. Over the years, the Congress has developed mechanisms to provide control and oversight of secret government operations. These mechanisms include select and special oversight and investigatory committees and laws mandating congressional notification of secret activities. The Iran-Contra revelations shattered confidence in these mechanisms' effectiveness. Adding to concern was the increase in highly secret military programs not subject to normal scrutiny. During 1987, questions about waste and inefficiency in programs shielded from public view multiplied.

GAO has long reviewed highly classified and sensitive government programs and provided the Congress with independent information and analysis. In recent years, GAO has examined a range of highly secret military technology efforts, intelligence activities, and sensitive programs involving other nations. For example, GAO reported on stealth technology programs, tactical intelligence activities, and security assistance programs in the Philippines and Central America.

Last year, GAO provided extensive assistance to the Senate and House select

committees investigating the Iran-Contra Affair. GAO issued a report that documented the arms sales to Iran and concluded that the Department of Defense had not charged enough for the weapons. Additionally, 12 GAO staff members were detailed to assist special investigating committees, and the extended public hearings reflected the importance of committee and GAO staff findings. Also, in another report examining Contra assistance, GAO found that controls over humanitarian aid were lax.

Following the Iran-Contra hearings, legislative proposals for increased controls were developed. Bills introduced in the Senate and House would provide GAO greater access to the Central Intelligence Agency. As the Congress seeks the appropriate balance between secrecy and accountability, debate will center on these proposals.

### Crediting the Unsung

Although the Congressional investigation of the Iran-contra affair created a number of celebrities among the witnesses and the interrogators, the work of the investigating committees relied heavily on unsung efforts of the General Accounting Office, the agency that watches over all types of Government spending.

Working behind the scenes, a team of G.A.O. experts headed by John Cronin and Louis Zanardi used computers to track down \$47 million in proceeds from the sale of weapons to Iran and contributions to the contras by private donors and foreign officials. Olga Johnson and Jeannette

Meixner, both fluent in Spanish, analyzed bank records of the Nicaraguan rebels. Melinda Suddes developed a computer spread sheet showing the flow of funds.

Mr. Cronin went to Switzerland to review bank records and discovered the whereabouts of \$10 million contributed to the contras by the Sultan of Brunei. The money had been deposited by mistake in the account of a wealthy Swiss businessman.

A team of five G.A.O. investigators led by Bud Hall, a former agent of the Federal Bureau of Investigation, sifted through hundreds of documents retrieved from the White House, the National Security Council and other agencies.

*The New York Times*, September 14, 1987

*"...insider trading... makes all of us potential victims of a greedy few who would subvert a system that provides the financial fuel for America's economic growth."*

*John J. Phelan, Jr.,  
Chairman and Chief  
Executive Officer, New York  
Stock Exchange*



**GAO was involved in evaluating how the SEC and stock exchanges could better monitor stock market activity to detect insider trading. Here GAO staff from the New York regional office meet in the Stock Watch Alert Room of the American Stock Exchange.**





## Monitoring Insider Trading

In fiscal year 1987, a shaken Wall Street saw one of the largest insider trading scandals in its history. Senior officials at respected securities trading firms and other market professionals were ensnared in a web of conspiracies, payoffs, and sophisticated market manipulation. These events heightened public concern about the honesty of those involved in the securities markets. The Congress questioned whether the markets had grown so fast and become so complex in recent years that regulators, whose own resources had not grown, could no longer effectively oversee their operations. Building on six recent reports on securities regulation, GAO began in 1987 to evaluate methods of detecting and investigating insider trading.

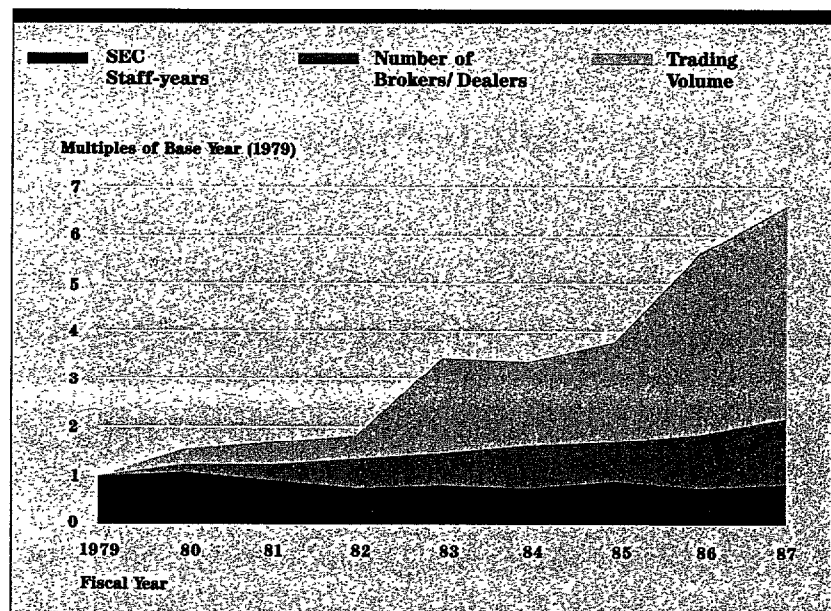
In testimony before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, GAO reported that monitoring trading effectively is an enormous task when, for example, more than 75,000 trades involving 150 million shares of stock are made daily on the New York Stock Exchange alone. The Securities and Exchange Commission (SEC), which oversees the industry, and securities self-regulatory organizations that are charged with monitoring day-to-day activity try to ferret out questionable trades and develop evidence of possible violations of securities laws. GAO testified that the SEC and self-regulatory organizations have invested millions to develop sophisticated computer surveillance systems to detect suspicious trading activity.

Although GAO called for improvements in these computer systems, it also indicated that even the most sophisticated computer surveillance system will not necessarily produce the evidence required to link questionable trades with individuals

who use insider information. While the systems can provide the initial leads, the major cases have relied on informants and anonymous tips to develop the complex trail and the evidence needed to prosecute offenders. Furthermore, the increase in merger and takeover activity provides opportunities for a wide circle of individuals—not just typical corporate insiders but others, such as attorneys, analysts, printers, librarians, and clerical staff—to reap enormous illegal gains.

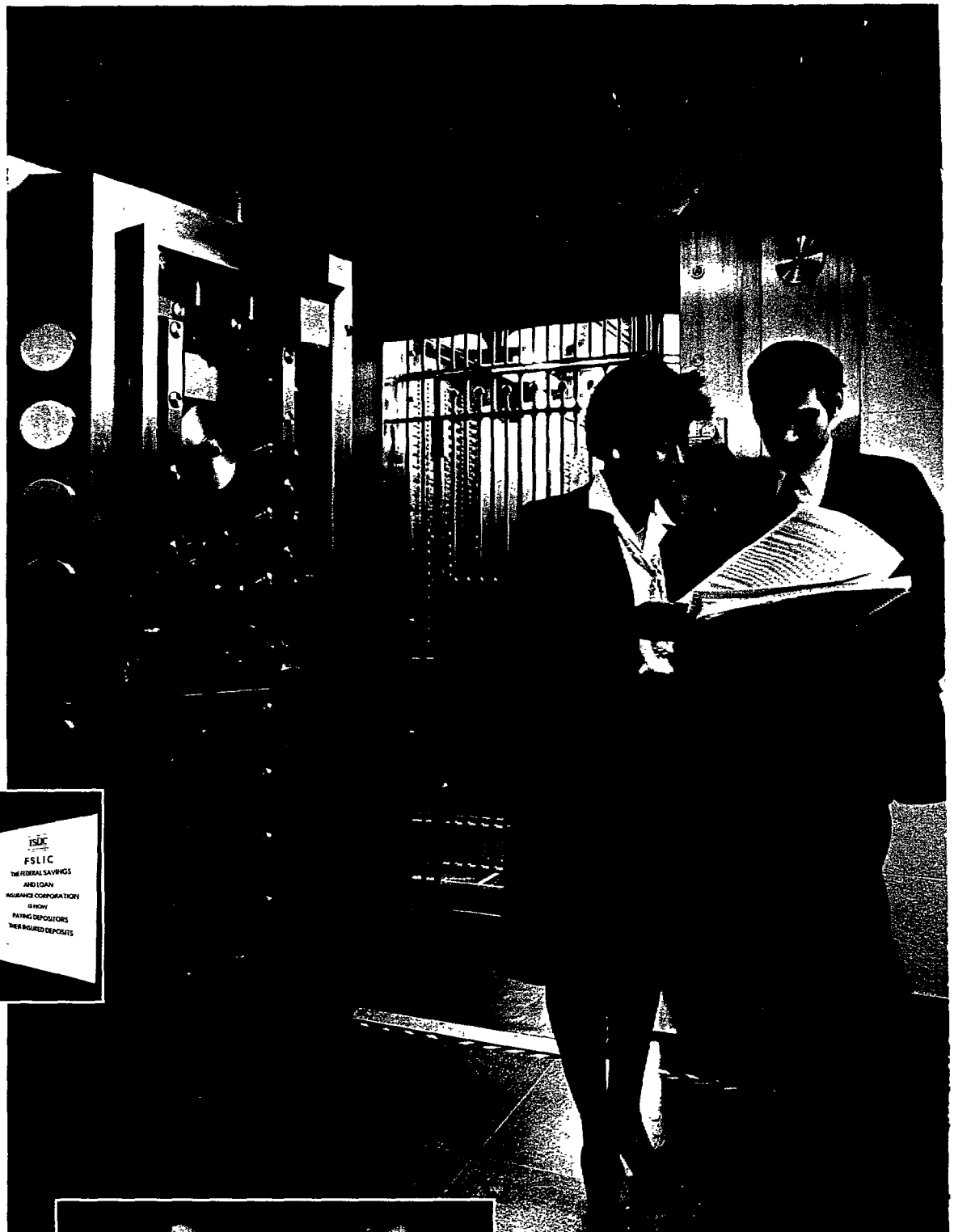
GAO is studying ways to help deal more effectively with insider trading. It has evaluated initiatives taken by self-regulatory organizations and the SEC to improve their operations and is assessing the overall process from a management and accountability standpoint. GAO is also studying special difficulties created for regulators when traders use international securities markets to conduct business.

### Market Activity Has Increased Tremendously, While SEC Staff-years Have Been Stable



*"Banks, particularly agricultural and energy lenders, are failing at a rate unseen since the Great Depression."*

*L. William Seidman,  
Chair, FDIC*



**GAO reported the unprecedented magnitude of losses in the Federal Savings and Loan insurance fund. Here Senator William Proxmire and GAO's Director of Accounting and Financial Management confer on realistic solutions for troubled financial institutions.**



## Rescuing the Nation's Lending Institutions

During 1987, the financial position of the nation's lending institutions continued to deteriorate. Nearly 500 of 3,200 savings and loans were insolvent at mid-year, and GAO's annual audit found the Federal Savings and Loan Insurance Corporation (FSLIC), which insures thrift institution deposits up to \$100,000, insolvent. The Farm Credit System, which dominates farm real estate lending markets with \$60 billion in loans, has lost about \$5 billion since 1985. Approximately 2,200 of the nation's 14,000 commercial banks were unprofitable as of mid-1987, and 200 of them were expected to fail. Finally, the Federal Deposit Insurance Corporation (FDIC), which historically has insured commercial bank deposits, had a record low ratio of reserves to deposits.

Because these institutions are vital to the economy, the American people have a large stake in their financial viability. Financial exposure from these problems far exceeds the size of past federal rescues. For example, the federal government authorized \$250 million in aid to Lockheed, \$1.5 billion to Chrysler, and \$1.65 billion to New York City. These amounts pale when compared with estimated federal financial exposure of \$3 to \$10 billion for the Farm Credit System and up to a staggering \$30 billion for the thrift industry.

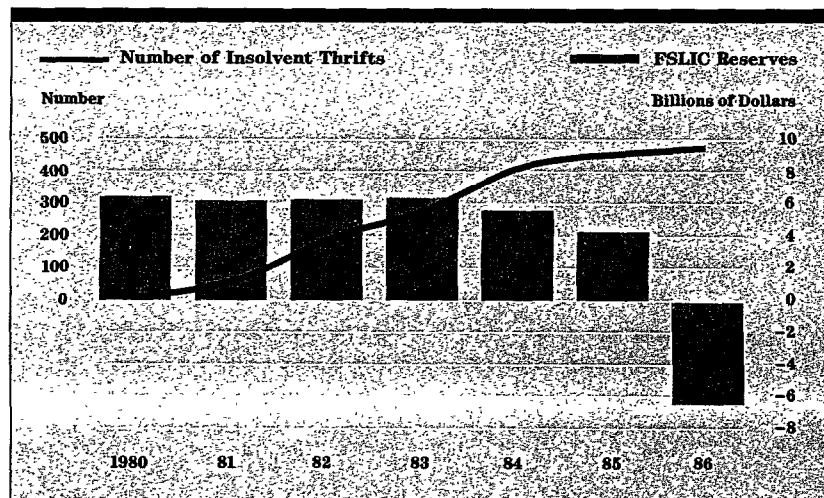
Problems with the nation's lending institutions developed over time. For several years, regulators allowed the institutions to hide their losses, hoping time would reverse their misfortunes. Thrift institutions delayed recognizing certain losses; created the appearance of adequate capital; and, in some cases, simply remained open with insufficient capital. Commercial banks were allowed to defer potential losses on agriculture, energy, real estate, and third-world loans. In 1986, the Farm

Credit System was allowed to defer losses for up to 20 years. GAO strongly objected to these accounting practices through reports and testimony, warning that such devices do not work, perpetuate bad management, and mask the financial condition of troubled institutions.

GAO continued to advise the Congress of the need for prompt recapitalization of FSLIC. In 1987, the Congress passed a bill letting the insolvent FSLIC sell \$10.8 billion in bonds, an amount that may prove to be far less than what is needed.

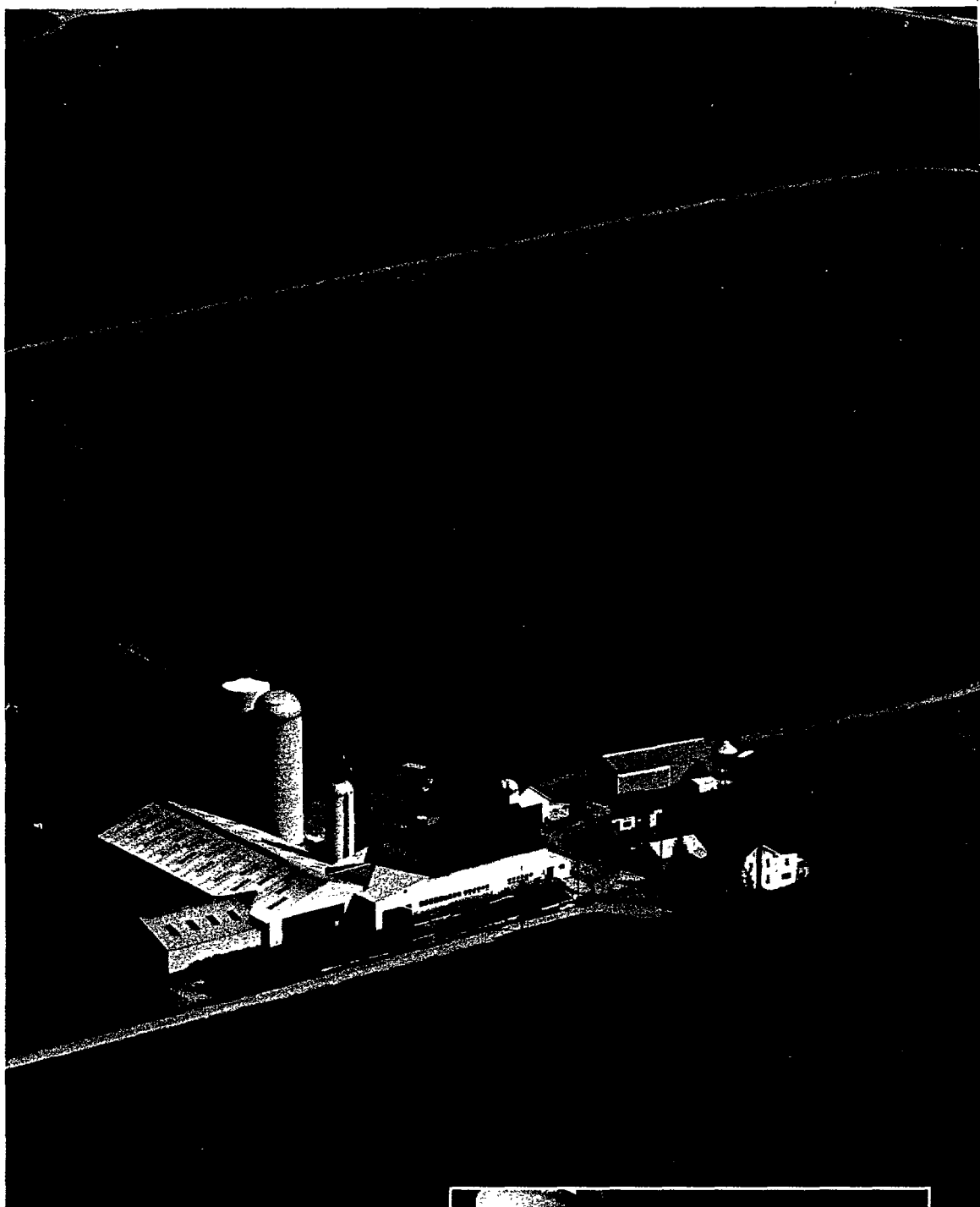
GAO also assessed the Farm Credit System, identifying management problems related to the system's financial difficulties and offering the Congress a plan for its rescue. Legislation designed to save the system incorporated parts of GAO's plan, including the creation of an independent oversight board and an insurance fund. Through reports and testimony, GAO will continue to help focus congressional deliberations on realistic solutions for troubled financial institutions.

### FSLIC's Problems Mirror Those of the Industry

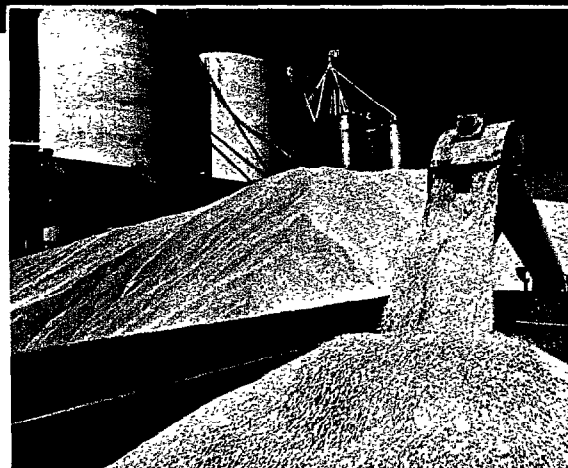


*"It's a heck of a situation, isn't it? We're producing for a government program, not the market. I can hardly wait until people start finding out the costs."*

*Texas cotton producer*



**Corrective legislation was enacted in 1987 following GAO's finding that farm reorganizations designed to avoid payment limits added almost 9,000 new "persons" to federal farm payment rolls over a 2-year period. GAO also reported that commodity certificates would eventually cost more than cash payments to farmers.**



## Controlling Federal Farm Payments

Large crop surpluses, falling prices, and dwindling exports resulted in the Congress' enacting the Food Security Act in 1985. The intent of this legislation was to lower crop prices even more to make U.S. crops competitive in the world market and thereby increase exports and decrease surpluses. To stabilize American farmers' incomes, as many were already in financial distress, the act also increased federal farm payments. Federal expenditures soared to a record \$26 billion in 1986—up from \$4 billion in 1977—and continued to increase in 1987.

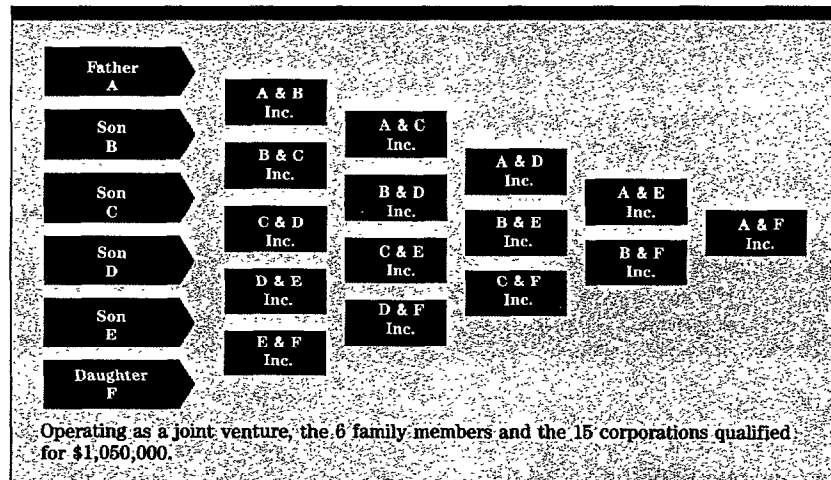
The act authorized payments to farmers in the form of certificates exchangeable for commodities held in the federal inventory, such as corn, wheat, cotton, or rice. By the end of January 1987, about \$5 billion in certificates had been issued. GAO analyzed the cost of issuing commodity certificates compared with making cash payments and found that, given the way in which the program was implemented, certificates eventually cost more. The first \$3 billion in certificates exchanged will cost up to \$3.6 billion, or 20 percent more than cash payments would have cost. At congressional request, GAO is looking further into the budgetary treatment of the certificate.

The 1985 act also substantially increased cash payments to individual farmers who only a few years ago were receiving little or no federal payments. These payments are tied to production rather than need. Because payments are limited by law to \$50,000 per person annually, many farmers have legally reorganized their existing operations to add more "persons," who each qualify for up to \$50,000. For example, GAO identified a case in which 6 family members who received a total of about \$300,000 in support

payments in 1985 reorganized their operation by forming 15 corporations. In 1986, the operation qualified as 21 persons (the 6 original family members and the 15 new corporations) and received \$1,050,000.

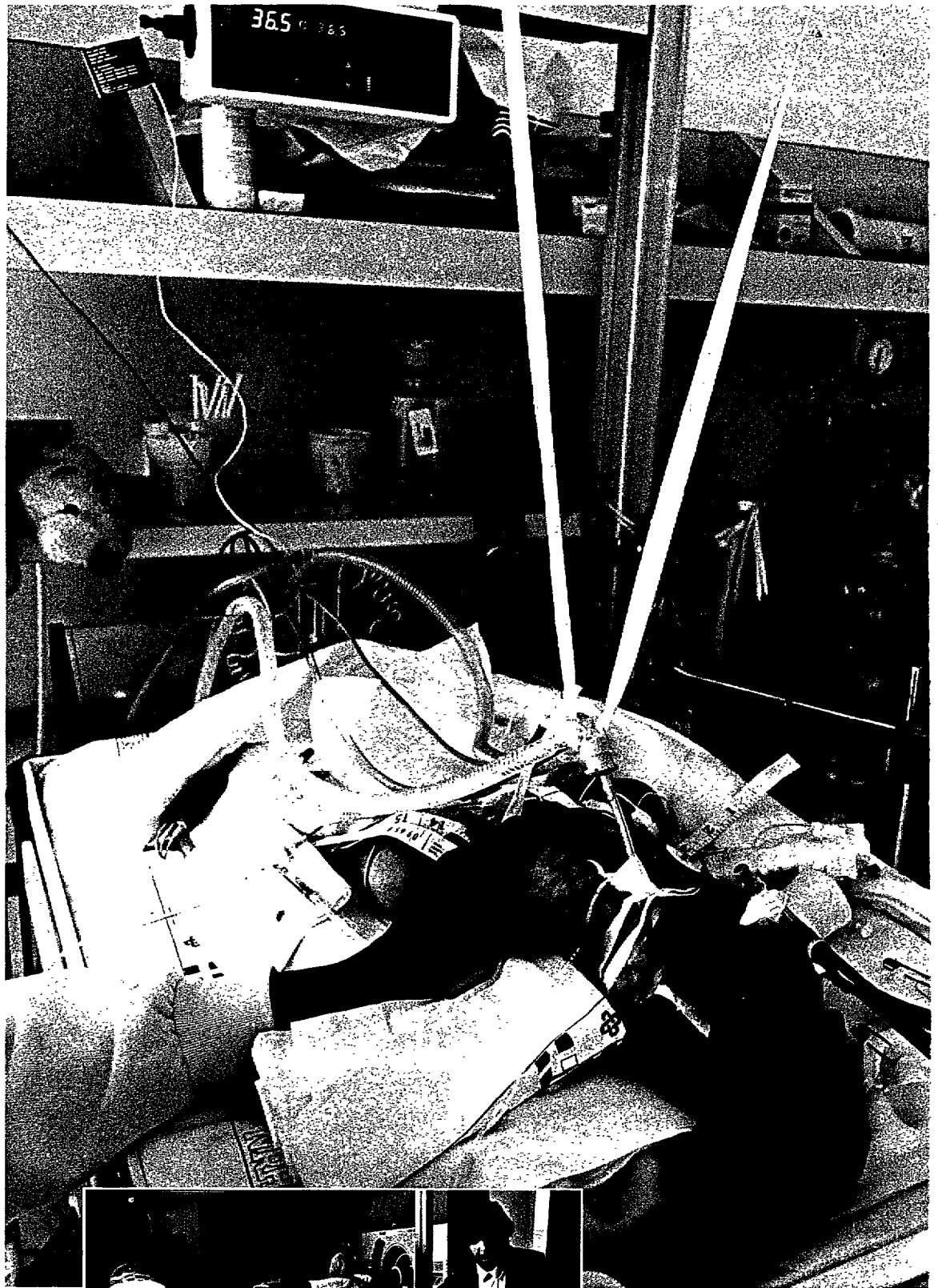
GAO's analysis showed that between 1984 and 1986 reorganizations designed to avoid the payment limit added almost 9,000 new "persons" to farm payment rolls. If this trend continues, by the end of 1989 almost 31,000 new "persons" could be receiving federal payments. On the basis of GAO's work, legislation was enacted to inhibit reorganizations designed solely to avoid the payment limit. This legislation could save more than \$300 million in the next 3 fiscal years. Given the vast sums that are likely to be spent to help the farm sector through its current financial crisis, this legislation will help ensure that funds are used effectively to achieve the goals set by the Congress.

### Farm Payments: Turning \$300,000 Into Over \$1 Million



*“Medical bankruptcy from catastrophic illness is a haunting possibility for many American families.”*

*Stuart Eizenstat, former Domestic Policy Adviser*



**GAO's analysis showed that almost two-thirds of the uninsured women and women on Medicaid studied received insufficient prenatal care. Here a GAO evaluator observes sophisticated imaging equipment at the National Institutes of Health.**



## Closing the Gaps in Access to Health Care

**H**ealth care expenditures account for about \$1 of \$9 spent in the national economy and will soon exceed the half-trillion-dollar mark. Paying for health care is a problem for millions of Americans. Gaps in public and private health insurance programs leave about 56 million Americans under age 65 uninsured or underinsured, including the poor who do not qualify for Medicaid, many unemployed or self-employed persons, and employees of businesses that do not provide health benefits. In addition, many elderly persons incur catastrophic medical expenses for long-term care not covered by Medicare.

Rising health costs and quality-of-care issues continued to concern the Congress this year as in other recent years. In 1987, however, national attention focused also on expanding access to care. In reports and testimony before the Congress, GAO evaluated the trade-offs between access and cost both in existing programs and in new options.

Gaps in Medicare and private health insurance programs can often mean quickly depleted savings for sufferers of catastrophic and long-term illnesses. In 1987, the Congress debated how much protection to provide, at what cost, and to whom. GAO's analysis of beneficiaries' out-of-pocket expenses for acute care helped the Congress address how to expand Medicare benefits for catastrophic circumstances in a constrained budgetary environment.

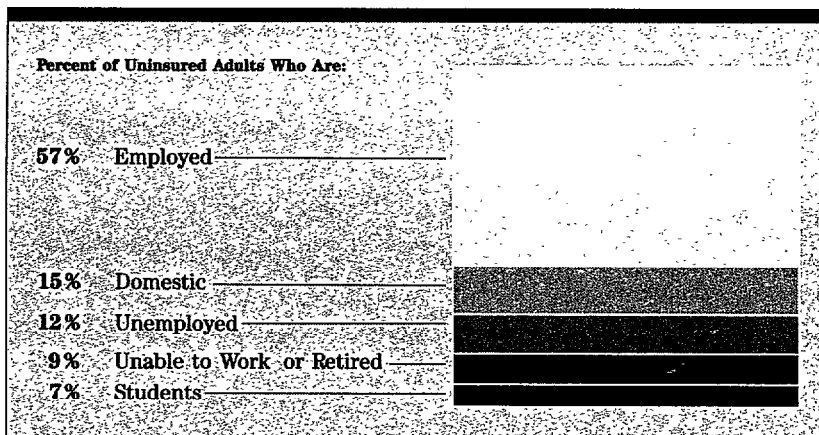
GAO also reported that the elderly face serious financial risk for long-term care costs. During their lifetime, one in four of them will enter a nursing home, where annual costs of care exceed \$20,000. Although the private sector has begun to experiment with filling the insurance gap for long-term care, GAO testified to the Congress that consumers have little pro-

tection against substandard insurance policies and sales abuse.

For uninsured persons under age 65, GAO is examining options such as employer-mandated health insurance coverage and the feasibility of state risk pools. Even Medicaid coverage is no guarantee of receiving adequate services. For example, GAO's recent analysis of access to prenatal care shows that almost two-thirds of the Medicaid and uninsured women studied received insufficient care.

GAO believes that efforts to improve access for the tens of millions of poor and needy people would require an infusion of new dollars from government, employers, and the workers themselves. Possible solutions, however, may run counter to efforts to control government spending, keep inflation low, and foster a competitive economy. GAO will continue to advise legislators about options that balance the competing needs for obtaining access to quality health care and curbing federal costs.

### Since More Than One-half of Uninsured Adults Are Employed, Employer-Mandated Insurance Coverage May Be an Option



*"I worked 30 years under this plan, and now I get 27 percent of my promised pension. There's no fairness here."*

*Richard Cecconi,  
retired steel company  
executive*



**The Pension Benefit Guaranty Corporation runs an insurance program covering the pension plans of over 30 million workers. GAO reported on the danger of program insolvency by the year 2002 and suggested ways to strengthen the program.**





## Protecting Retirement Benefits in a Cost-Cutting Climate

Fueled by an expanding post-war economy, the U.S. private pension system grew rapidly after World War II with little government involvement. When the Studebaker Company failed in 1962 and workers and retirees lost their pensions, public attention focused on protection for private retirement benefits. The Employee Retirement Income Security Act of 1974 (ERISA) was an attempt to secure the private pension promise for American workers.

Today, the federal government plays a vital role in protecting retirement benefits by regulating a private pension system with over \$1.5 trillion in assets. The Pension Benefit Guaranty Corporation (PBGC), established by ERISA, runs an insurance program covering more than 30 million workers in over 110,000 single-employer pension plans. Corporations with ongoing plans pay annual premiums to help guarantee that participants in terminated plans receive some benefits.

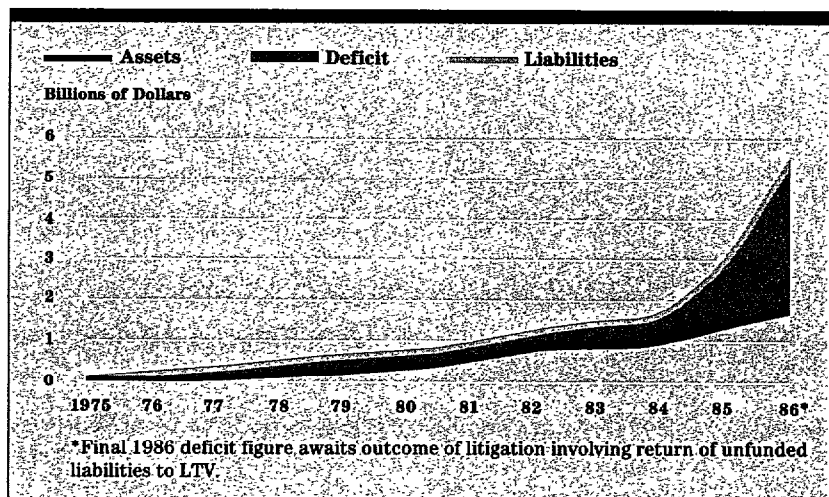
In 1987, GAO reported to the Subcommittee on Oversight, House Committee on Ways and Means, that PBGC's insurance program is in serious financial trouble and could be insolvent by 2002. Recent bankruptcies in a steel industry troubled by international competition contributed to an extraordinary deficit in the insurance fund. Companies such as LTV and Wheeling-Pittsburgh terminated plans without enough assets to pay promised benefits. Annual premiums for each plan participant tripled—from \$2.60 to \$8.50—in 1986, and GAO reported that the program deficit could be as much as \$4 billion. The actual amount depends on the outcome of litigation involving PBGC's unprecedented return of \$2 billion in unfunded pension liabilities to LTV.

Because of PBGC's financial problems, the Congress recently passed legislation

that strengthens the insurance program and protects insured pension benefits. In reports and testimony, GAO provided the framework for policy debate by suggesting that minimum funding standards for plans be strengthened, employers be required to make earlier contributions, and the premium rate be raised. GAO's analysis identified those who would be hurt most by variable or flat-rate premium increases and those who would bear the brunt of tighter minimum funding standards.

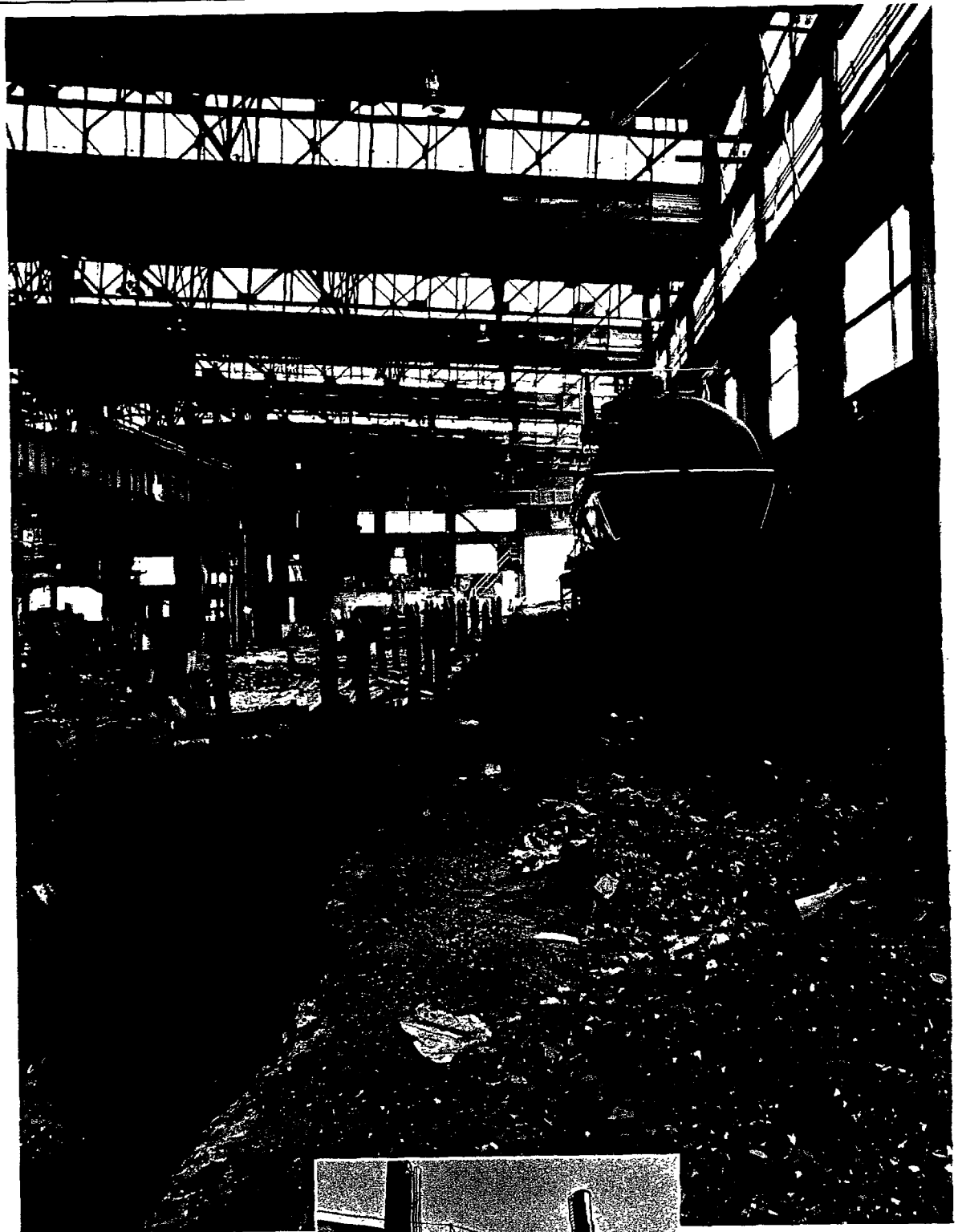
While such legislative changes clearly will enhance benefit security, the economic impacts on employers, plan participants, and the federal government are unclear. For example, raising employers' minimum contribution might encourage them to hold down pension costs by reducing or eliminating future pension benefit increases. As legislation is considered, GAO continues to provide the Congress with evaluations of potential effects.

### The Pension Insurance Program Deficit Is Increasing Dramatically



*“Worker dislocations will continue to be an inevitable result of rapid technological and economic change. We must be able to move in quickly...to give workers...training and services....”*

*William E. Brock,  
Secretary of Labor*



**GAO's work focused the debate on the adequacy of assistance to workers who lost jobs from plant shutdowns and permanent layoffs.**



## Helping People Get Jobs by Making Programs Effective

**E**ven in an expanding economy, millions of Americans face unemployment. Although more people were working in 1987 than ever before, high unemployment persists among certain groups: minorities; women heading families; and youth, especially high-school dropouts. Furthermore, about 2 million workers a year are displaced from their jobs by plant shutdowns and permanent layoffs.

In 1987, the Congress extensively debated the adequacy of assistance to workers losing jobs from plant shutdowns and permanent layoffs. These are typically experienced workers, most often from factory jobs, unemployed largely because of foreign competition and technological change. GAO reported to the Congress that federal programs reach only a small proportion of such workers and that few employers provide advance notice of shutdowns adequate to establish effective reemployment assistance. Draft legislation expanding federal programs for dislocated workers and mandating advance notice requirements draws on GAO's work.

Many of the unemployed lack the skills needed to compete successfully in the labor market. The centerpiece of federal training programs, the Job Training Partnership Act, annually serves about 1 million people. A major congressional issue currently under GAO study is whether services are targeted to the most needy, rather than to high-school graduates and others who are more likely to find jobs on their own. The Congress is considering related legislation.

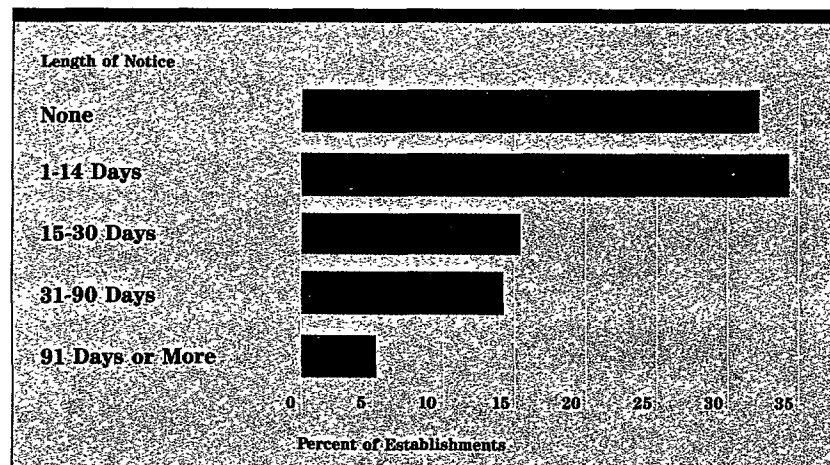
Pending legislation also would shift the focus of the principal federal welfare program, Aid to Families With Dependent Children, from income maintenance to obtaining employment. The program currently provides benefits to over 3.7 million

families, mainly unemployed mothers with dependent children. In 1987, the Congress reviewed GAO reports that identified issues to consider in assessing welfare reform proposals; noted that welfare participants in work programs made at least modest employment and earnings gains; and suggested that while the participation of women with young children would initially cost more, it would have the greatest impact on reducing long-term welfare dependency.

The Congress has been concerned, too, about the unemployment of school dropouts and subsequent costs to society. In 1986, 50 percent of dropouts ages 16 to 24 were not working. The Congress drew on GAO testimony and reports in drafting legislation for demonstration programs to reduce dropout rates.

In 1988, GAO will continue providing the Congress information to help improve the nation's employment and training programs.

### Two-thirds of Establishments Give Workers No More Than 2 Weeks' Notice of Plant Shutdowns or Permanent Layoffs





*GAO fosters improved government operations around the world. At the close of 1987, the International Fellowship Program had 116 "graduates" trained in modern audit techniques and procedures.*





---

## Special Focus

**S**ome of GAO's current activities do not fall naturally into one of its audit and evaluation areas. This section features four such efforts: two that were one-time activities and two that are ongoing. It also notes the passing of a friend whom many in the Congress remember and will miss.

### International Auditor Fellowship Program

In 1987, GAO welcomed auditors from 11 countries to the ninth annual International Auditor Fellowship Program. Designed to support the growth of national audit organizations in developing countries, the 4-month program uses volunteer GAO staff to teach auditing courses, provides on-the-job training, and trains Fellows to transfer what they learn to others in their home countries. GAO staff also support the program outside the workplace. Volunteering to serve as sponsors, they help Fellows adjust to America by involving them in family and social events.

Since 1979, 116 Fellows representing 52 countries have completed the program. In 1987, participants came from Cyprus, India, Indonesia, Korea, Malawi, Nepal, Sierra Leone, Sri Lanka, Tonga, Zambia, and Zimbabwe.

The accomplishments of former Fellows demonstrate the program's success. Some now head units that review or develop audit policies, while others have established formal training functions in their offices. One is now an Auditor General, and another is a Deputy Auditor General. The growing worldwide network of former Fellows illustrates GAO's commitment to fostering professional standards throughout the international auditing community.



*In 1987, GAO helped resolve major railroad issues through work supporting the Comptroller General's chairmanship of the Railroad Accounting Principles Board and membership on the Railway Association Board.*

### **Railroad Accounting Principles**

The Railroad Accounting Principles Board culminated more than 2 years of congressionally mandated work in 1987 by issuing principles addressing railroad cost accounting. Chaired by the Comptroller General, the Board provided the Interstate Commerce Commission with an accounting framework to use in resolving issues such as setting fees for one railroad to use the facilities of another, abandoning lines, and setting freight rates. In developing the principles, the Board's staff, housed in GAO, did extensive research and held public hearings to gather information on the concerns of railroads and shippers.

### **The Sale of Conrail**

The 1987 sale of the government's 85-percent interest in Conrail fulfilled the goals of 1980 and 1981 legislation that removed constraints on Conrail's profitability. The legislation also named the Comptroller General to the U.S. Railway Association Board, a government corporation that funded Conrail, evaluated its operations, and advised the Congress about its future.

The main issue was how to sell Conrail and to whom. The Department of Transportation favored selling to a single buyer whose financial strength would ensure Conrail's future in the private sector. Others, particularly in the Congress, favored a public stock offering. The Association, supported by GAO staff, worked closely with congressional committees to analyze proposals. The Congress passed legislation providing for the public stock offering. On March 26, 1987, the public sale of Conrail netted the government \$1.58 billion.

### GAO's Oral History Interviews: A Look Back

"What is past is prologue." This inscription on the National Archives Building expresses the concept behind GAO's history program, which records important events in the life of GAO. Oral history is an important part of the program, and key officials who made decisions and directed GAO's efforts are now being interviewed to record their observations and impressions.

This year, interviews with former Comptroller General Elmer B. Staats were videotaped. These tapes provide insights into the "how and why" of policies adopted and decisions made during his tenure. According to Mr. Staats, the main change during his 15-year term was in the scope of GAO's work, "not just the program evaluation and effectiveness reviews...[but] the emphasis on management...on trying to use GAO's influence to build up the strength of internal audit and inspection, the role we played in trying to develop improvements at the



state and local level, and...in the government accounting area."

Other interviews have been conducted with Ted Westfall, GAO's Director of Audits in 1952; John Thornton, Director of Field Operations, 1956 to 1976; and former Congressman Chet Holifield, who chaired the 1965 committee hearings on GAO's contract audit activities. Through these interviews, GAO preserves its past to guide the present and plan the future.

*Elmer B. Staats, Comptroller General, 1966-1981. "The strength of GAO is always in its people. GAO has now emerged...as the most attractive place for young people to come into government."*

### Frank H. Weitzel

In July 1987, GAO mourned the passing of Frank H. Weitzel, who served the Office for 45 years with competence and dedication. Rising from messenger to Assistant Comptroller General, Mr. Weitzel served under every Comptroller General from GAO's creation in 1921 to his 1969 retirement. Mr. Weitzel was devoted to GAO's work, and his life exemplified what it means to be a public servant. At Mr. Weitzel's retirement, the Speaker of the House noted: "He has strived constantly to improve the workings of our democracy,



to make government ever more efficient and honest and able to cope with the greatest problems of contemporary life."

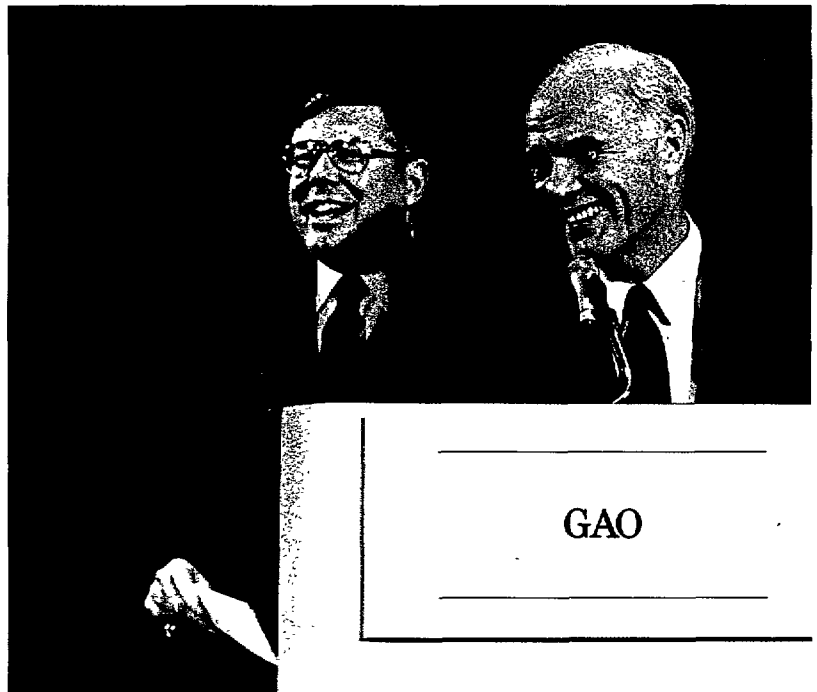
*Frank H. Weitzel, November 9, 1907-July 20, 1987*

**G**AO's evaluators, accountants, engineers, computer scientists, statisticians, public administrators, economists, and clerical staff, among others, are its strength. This section highlights a few of the many activities that help maintain staff effectiveness and job quality.

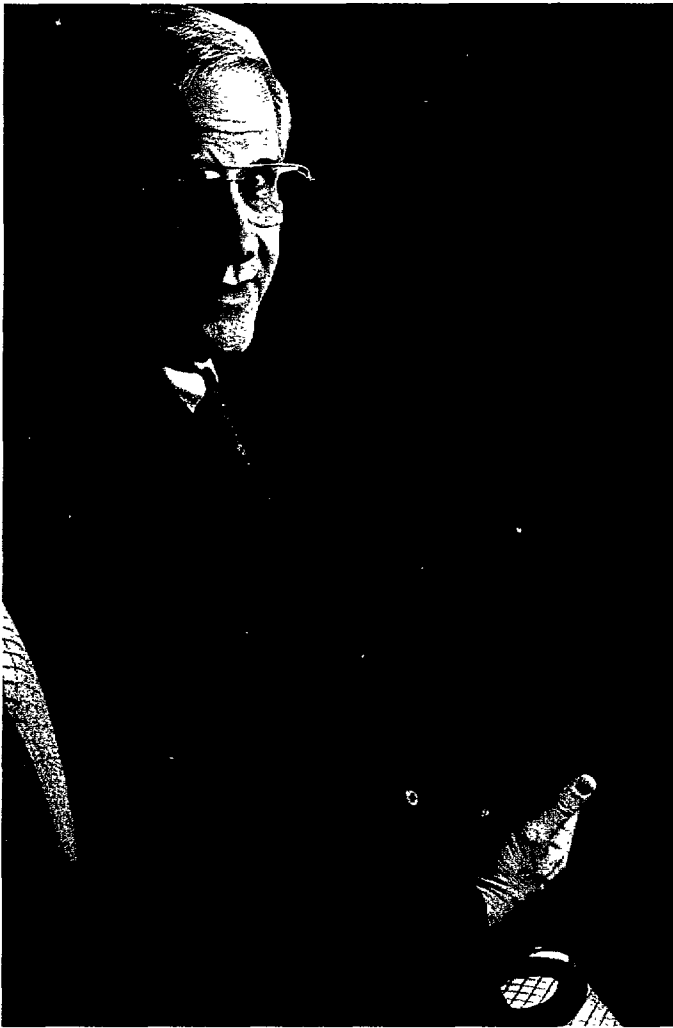


In 1987, the Boston regional office moved into new federal office space designed to model the use of computer-compatible furniture and advanced telecommunications capabilities. The Boston office illustrates the goals of GAO's facilities modernization effort: providing a work environment that incorporates modern technology and enhances the effectiveness and quality of life of GAO employees. As leases expire and regional offices move, other modernization efforts will follow.

Bringing together its senior executives to discuss emerging government issues and GAO initiatives, GAO held its Fifth Annual Management Conference in November 1987. Senator John Glenn, Chairman of the Senate Governmental Affairs Committee and a featured speaker, addressed GAO's role as an independent audit organization in identifying the important issues facing the federal government. The conference supported this theme, focusing on GAO and overall federal management plans.



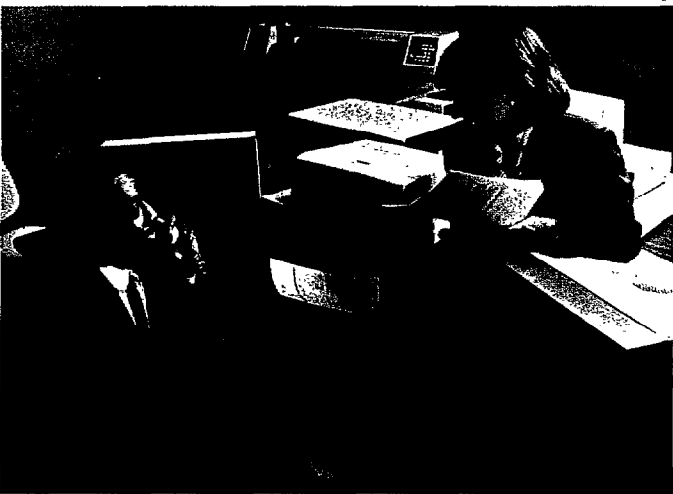




In 1987, the American University honored Milton J. Socolar, Special Assistant to the Comptroller General, with the Roger W. Jones Award for Executive Leadership. Mr. Socolar was one of two federal career executives selected for superior leadership, outstanding organizational achievements, and strong commitment to developing federal managers and executives. Mr. Socolar brings 37 years of public service to his job of second-in-command of GAO, and he has had a major role in enhancing GAO's effectiveness.



Dr. Carl Sagan, astronomer, educator, and author, keynoted GAO's Third Annual Technical Conference in April 1987 at the University of Maryland. Nearly 400 senior officials, evaluators, and evaluator-related specialists came together for the 2-day conference to hear national experts discuss methodological developments applicable to GAO's work and to share innovative technical strategies used in GAO studies.



Microcomputers are revolutionizing GAO's operations. Today, GAO staff use word processing, spreadsheet, and database management software to draft reports and perform sophisticated analyses. Both text and data are now electronically transmitted to many users and locations in seconds. Microcomputers are an integral part of GAO's long-range information management strategy.



**Dr. Marvin Bressler, head of Princeton University's Sociology Department, currently chairs GAO's Research and Education Advisory Panel. The 20- to 30-member panel meets twice a year and serves as a major link between GAO and the academic community. It acts as a sounding board for selected GAO work, both planned and in progress, and advises on staff development and training. The panel's members also serve as resource persons on specific projects.**

**To manage a 5,100-person staff working on 1,000 jobs and producing 700 to 800 reports a year, GAO's top leaders meet regularly. For example, each week the Comptroller General and his management team review new jobs and discuss issues relating to job scope, timing, resources, coordination, and methodology. Biweekly meetings are also held with the heads of GAO divisions to review reports and to discuss other matters of interest.**



An overflow crowd gathered at the District of Columbia's Martin Luther King Memorial Library for GAO's 1987 annual program marking Black History Month. The keynote speaker, Dr. Benjamin Hooks, Executive Director of the National Association for the Advancement of Colored People, reminded the audience that despite strides made during the past 40 years, the need to press for greater equality between the races is far from over. Noting that each of GAO's program divisions now has women and blacks in top leadership roles, Comptroller General Bowsher stressed that GAO must continue to work, unit by unit, to meet EEO goals.



Speaking on critical issues affecting GAO's work, Assistant Comptroller General Anderson provides Specialized Entry-Level Training participants with a better understanding of GAO's work. Designed to introduce new entry-level staff to GAO and how it does its work, the 7-day course covers topics ranging from audit standards and workpaper preparation to ethics and team-building.

## Financial Information

This section of the *Annual Report* includes commentary on GAO's financial resources and expenses, initiatives undertaken to improve financial management operations, and results of GAO's reviews to assess its internal controls similar to those conducted by executive branch agencies under the Federal Managers' Financial Integrity Act (FMFIA) of 1982. GAO's financial statements for fiscal years 1987 and 1986 are also included, together with the opinion of the independent accounting firm, Price Waterhouse, that audited the 1987 statements.

### Financial Resources and Operating Expenses

The accompanying financial statements summarize the financial position of GAO.

GAO's financial resources come from (1) appropriations from the Congress and (2) reimbursements from other federal entities.

GAO's annual appropriation increased from \$288 million in fiscal year 1986 to \$311 million in fiscal year 1987. The increase was attributable to cost-of-living adjustments made to salaries and benefits, the effect of the new Federal Employees Retirement System on salary-related benefits, higher travel costs, and inflation in rental rates for office space. Virtually all operating expenses supported GAO's audit and evaluation activities.

During fiscal year 1987, expenses for salaries and related costs exceeded \$231 million and constituted 76 percent of GAO's total operating expenses. This level of expense supported the staffing of 5,042 full-time-equivalent staff-years. This staffing level has remained relatively constant during the past decade.

### Financial Management Improvements

In connection with ongoing efforts throughout the agency to improve productivity and internal controls, several initiatives aimed at improving financial management operations within GAO were completed or undertaken during fiscal year 1987. Of primary importance among these initiatives was the implementation of a new integrated financial management system. The new system will enable GAO to achieve greater efficiency in its financial operations and to enhance the way in which GAO produces its internal and external financial reports.

GAO also continued planning in 1987 to acquire new automated payroll/personnel and property accountability systems. As is the case with the financial management system, acquiring these two systems will support the general framework

for developing automated systems that was set forth in GAO's long-range *Information Resources Management Plan*. Completed in fiscal year 1986, this plan says that, to the extent feasible, GAO will acquire automated systems by adapting off-the-shelf programs or using the automatic data processing (ADP) services of other federal agencies.

### Results From Financial Integrity Act Reviews

Although not subject to the provisions of FMFIA, GAO is firmly committed to the spirit and intent of the act. Accordingly, GAO periodically reviews its operations to assess its vulnerability to fraud, waste, and mismanagement. As a result of these reviews, GAO has strengthened its internal controls and has improved operations in several areas.

GAO has completed several FMFIA projects in the past few years and has others under way. Furthermore, GAO is developing a Management Control Plan to guide its FMFIA efforts for the next 5 years. The major FMFIA projects are summarized below.

#### Projects Under Way

*Improving the physical security of property and space.* GAO has given increased attention to providing adequate security over microcomputers. The Office of Security and Safety is preparing a comprehensive security handbook to enhance all employees' awareness of security issues. That office is also conducting inspections to assess the security procedures currently used by GAO units.

*Improving the physical and financial accountability of property.* GAO is currently revising its policies and procedures relating to the accountability of property. Recently, GAO selected a new automated property system that will further improve the control of property. A team has been organized to finalize system requirements and begin the move to the new system.

*Planning, executing, and reporting on the results of specific assignments.* Improving GAO's work quality is an ongoing effort throughout the agency. In 1983, GAO initiated a continuing program that involves performing quality reviews of completed audits. The purpose of these reviews is to promote consistency in and adherence to GAO policies and procedures and identify necessary changes. GAO also conducts training on quality standards and has improved its guidance on the quality assurance processes used in conducting and reporting on audits and evaluations.

**Projects Completed in Fiscal Year 1987**

*Purchasing goods and services.* GAO significantly strengthened controls over procurement with the 1987 implementation of its new financial management system. Under this system, daily status reports of all actions are available for management review, reconciliations are easily and accurately obtained, and procurements cannot be processed unless the system indicates that funds are available. The procurement process for small purchases has also been simplified.

*Implementing revised time and attendance policies and procedures.* GAO implemented revised time and attendance reporting requirements in January 1987. Under this new system, employees certify the actual hours they worked for the entire reporting period.

*Improving internal controls over sensitive documents.* During 1987, GAO reviewed its internal controls over sensitive documents and records. GAO took actions to strengthen controls in this area and will continue to ensure that its policies, procedures, and practices remain adequate.

*Implementing a Claims Management Information System.* The General Government Division's Claims Group uses an automated management information system that was developed as a "stand-alone" system separate from GAO's other automated information systems. Several improvements were made in this system in 1987. For example, using bar coding technology has significantly improved the way Claims' case files are tracked and inventoried. Additional system improvements were made as a result of an Office of Information Resources Management review of the system.

**Projects Completed in Prior Fiscal Years**

*Collecting delinquent receivables (1985).* GAO improved its claims collections activities. It reduced delinquent accounts through more aggressive collection actions and increased the average payment rates on previously delinquent accounts.

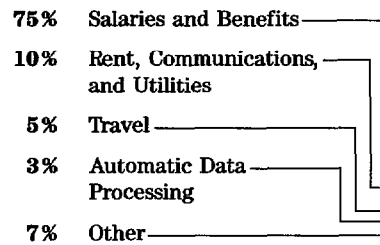
*Employing and using experts and consultants (1985).* As a result of an internal control review, GAO improved its controls over the employment and use of experts and consultants.

*Renewing, approving, and reevaluating auditing and reporting policy (1985).* To

improve its documentation system for auditing and reporting policy, GAO initiated a new clearance process for policy documents. GAO also continues to monitor policy implementation.

*Developing, acquiring, using, and reevaluating information management resources (1986).* GAO's Office of Information Resources Management has completed a long-range information resources plan. The 5-year implementation plan identifies activities that will provide greater efficiency and flexibility in GAO's automated mission support and administrative systems.

**GAO's Operating Expenses**

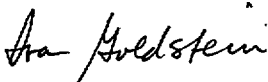


## Management's Responsibility for Financial Statements

GAO's financial statements and all related information in this section are the responsibility of management. The statements have been prepared in conformity with generally accepted accounting principles and Title 2 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*.

GAO maintains a system of internal accounting controls, a program of self-assessment (initiated to implement the concepts of FMFIA), and an internal audit program. These three mechanisms are designed to provide reasonable assurance, at appropriate cost, that GAO's assets are protected and that transactions are executed and recorded in accordance with established policies and procedures.

The internal audit program involves evaluations of all GAO operations and, prior to fiscal year 1987, audits of GAO's financial statements. GAO engaged an independent accounting firm during fiscal year 1987 to render an opinion on the financial statements as of September 30, 1987. Both the internal auditors and the independent accountants have free and independent access to the Comptroller General.



Assistant Comptroller General  
for Operations



Controller

## Report of Independent Accountants

Comptroller General  
of the United States

We have examined the statement of financial position of the General Accounting Office, an agency of the legislative branch of the government of the United States of America, as of September 30, 1987 and 1986, and the related statements of operations and financing sources and of changes in financial position for the year ended September 30, 1987. Our examinations were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the *Standards for Audits of Government Organizations, Programs, Activities, and Functions* issued by the General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The accompanying statements of operations and financing sources and changes in financial position for the year ended September 30, 1986, were not examined by us, and accordingly, we do not express an opinion on them. As an integral part of our 1987 examination we issued on this date separate reports which describe the scope of our review and findings related to internal accounting controls and compliance with laws and regulations.

In our opinion, the financial statements examined by us present fairly the financial position of the General Accounting Office at September 30, 1987 and 1986, and the results of its operations and the changes in its financial position for the year ended September 30, 1987, in conformity with generally accepted accounting principles and Title 2 of the General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies*, consistently applied.



Washington, D.C.  
January 15, 1988

**U.S. General Accounting Office  
Statement of Financial Position as of  
September 30, 1987 and 1986**

Dollars in Thousands

	1987	1986
<b>Assets</b>		
U.S. Treasury funds	\$33,096	\$30,631
Future appropriations due	22,361	21,349
Travel and other advances	1,138	981
Accounts receivable	1,656	2,897
Supplies inventory	590	558
Furniture and equipment, net of accumulated depreciation of \$4,450 and \$2,617, respectively	7,480	7,900
<b>Total Assets</b>	<b>\$66,321</b>	<b>\$64,316</b>
<b>Liabilities</b>		
Salaries and benefits	\$12,420	\$10,692
Employee travel	1,742	1,308
Accounts payable	7,624	5,965
Other liabilities	2,108	4,926
Accrued annual leave	21,212	20,270
<b>Total Liabilities</b>	<b>\$45,106</b>	<b>\$43,161</b>
<b>Net Assets</b>	<b>\$21,215</b>	<b>\$21,155</b>

The accompanying notes are an integral part of the financial statements.

**U.S. General Accounting Office  
Statement of Operations and Financing Sources for Fiscal Years Ended  
September 30, 1987 and 1986**

Dollars in Thousands

	1987	<i>Unaudited</i> 1986
<b>Operating Expenses</b>		
Salaries and benefits	\$231,536	\$220,536
External training	1,508	1,742
Travel	15,027	12,304
Rent, communications, and utilities	30,782	24,367
Computer and other ADP services	10,487	10,529
Other contract services	9,499	12,060
Supplies and materials	3,307	5,706
Printing and document copying	2,884	2,235
Depreciation	1,851	1,548
Other	1,421	871
<b>Total Operating Expenses</b>	<b>\$308,302</b>	<b>\$291,898</b>
<b>Financing Sources</b>		
Realized appropriations	\$307,492	\$291,159
Reimbursements and publication sales	3,463	3,300
Less amounts remittable to U.S. Treasury	(2,653)	(2,561)
<b>Total Financing Sources</b>	<b>\$308,302</b>	<b>\$291,898</b>

The accompanying notes are an integral part of the financial statements.



**U.S. General Accounting Office  
Statement of Changes in Financial Position for Fiscal Years Ended  
September 30, 1987 and 1986**

Dollars in Thousands

	1987	<i>Unaudited</i> 1986
<b>Sources of Funds</b>		
Appropriations and other financing sources	\$308,302	\$291,898
(Increase)/decrease in receivables and advances	72	(60)
(Increase)/decrease in supplies inventory	(32)	17
Increase/(decrease) in payables and other liabilities	1,945	5,755
<b>Total Sources of Funds</b>	<b>\$310,287</b>	<b>\$297,610</b>
<b>Funds Used in Operations</b>		
Operating expenses	\$308,302	\$291,898
Less expenses not requiring funds:		
Depreciation and amortization	(1,851)	(1,548)
Loss on disposal of capital assets	(198)	(32)
<b>Total Funds Used in Operations</b>	<b>\$306,253</b>	<b>\$290,318</b>
<b>Other Uses of Funds</b>		
Acquisition of capital assets	\$1,629	\$4,088
(Increase)/decrease in net assets	(60)	5,975
<b>Total Other Uses of Funds</b>	<b>\$1,569</b>	<b>\$10,063</b>
<b>Increase/(Decrease) in U.S. Treasury Funds</b>	<b>\$ 2,465</b>	<b>\$ (2,771)</b>
<b>U.S. Treasury Funds</b>		
Beginning of year	30,631	33,402
<b>End of year</b>	<b>\$33,096</b>	<b>\$30,631</b>

The accompanying notes are an integral part of the financial statements.

## Notes to Financial Statements

### Note 2. U.S. Treasury Funds

GAO does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The balance of U.S. Treasury funds represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments.

### Note 1. Summary of Significant Accounting Policies

#### A. Basis of Accounting

The Statement of Financial Position, Statement of Operations and Financing Sources, and Statement of Changes in Financial Position are presented in accordance with the accrual-basis accounting principles prescribed by 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 furniture and equipment and the recognition of long-term assets and liabilities in the accompanying financial statements. Also, for financial statement purposes, budgetary appropriations are realized as a financing source as accrued expenses are recognized. Table 1 presents a reconciliation of operating expenses, as included in the Statement of Operations and Financing Sources, to budgetary expenditures, as reported to the Office of Management and Budget.

#### B. Accounts Receivable

GAO's accounts receivable are due principally from federal government corporations or other federal agencies for audit and other reimbursable services. They are recorded, when appropriate, net of allowance for amounts that may not be collectible.

#### C. Fixed Assets

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

Improvements to leased office space costing \$5,000 or more are capitalized and amortized over 5 years. Library and other resource materials are depreciated over 10 years.

#### D. 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.

### Note 3. Future Appropriations Due

The balance of future appropriations due represents the aggregate of amounts that will be included in future years appropriations to finance congressionally authorized long-term liabilities (annual leave and Comptrollers' General retirement benefits), which are customarily financed (funds appropriated) in the year payment is required.

### Note 4. Leases

#### A. 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. These leases are cancelable without penalty; lease costs for office space and equipment for fiscal years 1987 and 1986 amounted to approximately \$26,700,000 and \$20,000,000, respectively.

#### 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. Lease payments of \$140,000 remained to be paid on these leases as of September 30, 1987. When GAO enters into these leases, the value of the future lease payments is capitalized and recorded as a liability.

### Note 5. Retirement Benefits

All permanent employees participate in the contributory Civil Service Retirement System or the Federal Employees Retirement System, which became effective January 1, 1987. Temporary employees are covered under social security. GAO's costs associated with these programs during fiscal years 1987 and 1986 amounted to approximately \$19,500,000 and \$16,800,000, respectively. While GAO has no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering the programs.

Comptrollers General and their surviving beneficiaries who qualify and so elect are paid retirement benefits by GAO under a separate program. These benefits, which amounted to \$75,000 and \$74,000 in fiscal years 1987 and 1986, respectively, are funded from current year appropriations. Since GAO is responsible for future payments under this program, the present value of future payments is included in future appropriations due and other liabilities.

### Note 6. Net Assets

GAO operates in a fashion that does not require permanent capital, and its operations are not expected to generate an operating surplus or deficit. The composition of net assets is provided in table 2.

The change in the unrealized appropriations related to capitalized assets is principally attributable to additions and depreciation related to fixed assets. The change in unrealized appropriations related to purchase commitments is attributable to an increase in outstanding undelivered orders as of September 30, 1987.

### Note 7. Contingent Liabilities

GAO has certain claims and lawsuits pending against it. Where claims are expected to result in payments, appropriate provision has been included in the accompanying financial 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 8. Trust and Other Governmentwide Functions

GAO is responsible for conducting three trust functions for the federal government: (1) collecting delinquent claims receivables, (2) administering Davis-Bacon Act receipts and payments, and (3) administering 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 \$15,112,000 on September 30, 1987. Of this amount, assets aggregating a face value of \$11,117,000 relate to governmentwide debt collection activities. Amounts ultimately collected, which cannot be reasonably predicted, will be remitted to the U.S. Treasury when received. The remaining assets of \$3,995,000 are related to Davis-Bacon Act funds and the estates of Americans who die abroad; they are not the assets of GAO or the federal

government and are held for distribution to appropriate claimants. Since these trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial 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. During fiscal years 1987 and 1986, GAO authorized approximately \$370,000,000 and \$289,000,000, respectively, in claims for payment from this special appropriation.

**Table 1: Reconciliation to Budgetary Accrued Expenditures**

Dollars in Thousands	
	1987
Total operating expenses as included in Statement of Operations and Financing Sources	\$308,302
Less expenses financed by direct reimbursement	(810)
Less increase in annual leave and retirement benefit expenses recognized in financial statements but not in budgetary accrued expenditures	(1,012)
Less expenditures recognized as budgetary expenditures in prior years	(343)
<b>Total Budgetary Accrued Expenditures</b>	<b>\$306,137</b>

**Table 2: Net Assets**

Dollars in Thousands		
	1987	1986
Unrealized appropriations related to:		
Capitalized assets	\$ 7,932	\$ 8,261
Purchase commitments	13,283	12,894
<b>Total Net Assets</b>	<b>\$21,215</b>	<b>\$21,155</b>

## Sources and Credits

**Front cover:** Quotation: Comptroller General Charles A. Bowsher, in a speech, "The Budget Crisis: Finding a Workable Solution," delivered at the Rotary Club, San Francisco, February 17, 1987.

**Inside front cover:** Photograph taken at the U.S. Capitol.

**Page 2:** Photograph taken at GAO.

**Page 4:** Photographs taken at the U.S. Capitol.

**Page 5:** Chart: GAO.

**Page 6:** Photographs taken at the Dundalk Marine Terminal, Dundalk, Maryland, and on Capitol Hill.

Quotation: Comptroller General Charles A. Bowsher, in a speech, "The Government Role in International Trade: GAO Contributions," delivered at the Chicago Council on Foreign Relations Corporate Services Program, April 7, 1982.

**Page 7:** Chart: *The U.S. Trade Deficit: Causes and Policy Options for Solutions* (GAO/NSIAD-87-135), April 1987, p. 17.

**Page 8:** Inset photographs taken at U.S. Naval Submarine Base, New London, Connecticut; aircraft carrier photograph courtesy of the U.S. Navy.

Quotation: *A Quest for Excellence: Final Report to the President*, President's Blue Ribbon Commission on Defense Management, Washington, June 1986, p. xvii.

**Page 9:** Chart: U.S. Department of Defense.

**Page 10:** Photograph courtesy of Israeli Aircraft Industries.

Quotation: Representative Lee H. Hamilton, Chairman, Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs, in a press release, February 23, 1987.

**Page 11:** Photograph taken at GAO.

**Page 12:** Nuclear facility photograph courtesy of the U.S. Department of Energy; testimony presentation photographed on Capitol Hill.

Quotation: Representative Mike Synar, Chairman, Subcommittee on the Environment, Energy, and Natural Resources, House Committee on Government Operations, in a letter to the Comptroller General, August 17, 1987.

**Page 13:** Map: U.S. Department of Energy.

**Page 14:** Inset photograph from Wide World Photos; photograph of GAO staff and Senator Inouye taken on Capitol Hill.

Quotation: *Report of the Congressional Committees Investigating the Iran-Contra Affair, with Supplemental, Minority, and Additional Views*, S. Rept. No. 100-216, H. Rept. No. 100-433, Washington, 1987, p. 16.

**Page 15:** *The New York Times*, September 14, 1987.

**Page 16:** Photographs taken at the American Stock Exchange, New York City.

Quotation: John J. Phelan, Jr., Chairman and Chief Executive Officer, New York Stock Exchange, in testimony before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, December 11, 1986.

**Page 17:** Chart: Trade volume from National Association of Security Dealers and SEC monthly and annual reports; number of brokers/dealers and SEC staff-years from SEC budget estimates.

**Page 18:** Photographs taken in Washington, D.C.

Quotation: L. William Seidman, Chair, FDIC, *The Washington Post*, June 10, 1987.

**Page 19:** Chart: *U.S. Thrift Industry: Forbearance for Troubled Institutions, 1982-1986* (GAO/GGD-87-78BR), May 1987, and *Financial Audit: Federal Savings and Loan Insurance Corporations, 1986 and 1985 Financial Statements* (GAO/AFMD-87-41), May 1987.

**Page 20:** Photographs courtesy of the U.S. Department of Agriculture.

Quotation: Texas cotton producer, *Des Moines Register*, July 6, 1986.

**Page 21:** Chart: *Farm Payments: Farm Reorganizations and Their Impact on USDA Program Costs* (GAO/RCED-87-120BR), April 1987, p. 41.

**Page 22:** Photographs taken of the ECMO (Extra Corporeal Membrane Oxygenation) unit at the Children's Hospital National Medical Center and of the Magnetic Resonance Imager in the Department of Diagnostic Radiology, Clinical Center, National Institutes of Health.

Quotation: Stuart Eizenstat, former Domestic Policy Adviser, *The Washington Post*, September 8, 1987.

**Page 23:** Chart: Margaret Sulvetta and Katherine Swartz, *The Uninsured and Uncompensated Care: A Chartbook*, National Health Policy Forum, Washington, D.C., 1986, p. 17.

**Page 24:** Photographs taken at Rehoboth Beach, Delaware; Indian Spring Country Club, Silver Spring, Maryland; and Holiday Park Multiservice Senior Center, Wheaton, Maryland.

Quotation: Richard Cecconi, retired steel company executive, quoted in *Congressional Quarterly*, April 1987.

**Page 25:** Chart: Pension Benefit Guaranty Corporation *Annual Reports*, 1975 through 1986.

**Page 26:** Photographs taken in Johnstown, Pennsylvania.

Quotation: William E. Brock, Secretary of Labor, from "Talking Points" at the American Business Conference, September 16, 1987.

**Page 27:** Chart: *Plant Closings: Limited Advance Notice and Assistance Provided Dislocated Workers* (GAO/HRD-87-105), July 1987, p. 37.

**Pages 28-29:** Photographs taken at GAO and in Hong Kong.

**Page 30:** Photograph taken at Potomac Yard, Alexandria, Virginia.

**Page 31:** Photographs taken at GAO and on Capitol Hill.

**Page 32:** Photographs taken at GAO's Boston regional office and in Herndon, Virginia.

**Page 33:** Photographs taken at GAO and at the University of Maryland, College Park, Maryland.

**Page 35:** Photographs taken at GAO and before the mural by Don Miller King at the Martin Luther King Memorial Library, Washington, D.C.

**Page 37:** Chart: GAO.

### Related Reports Available From GAO:

- (1) Supplement to the Comptroller General's 1987 *Annual Report* on GAO staff assigned to work for congressional committees and subcommittees during fiscal year 1987, (2) *Annual Index of Reports* for fiscal year 1987, and
- (3) *Status of Open Recommendations: Improving Operations of Federal Departments and Agencies*.

*Requests for the 1987 GAO Annual Report,  
or other GAO documents, should be sent to:*

*U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877  
Telephone 202-275-6241*

*The first copy of the Annual Report is free.  
Subsequent copies are \$1.25.*