

U . S . G E N E R A L A C C O U N T I N G O F F I C E

S E R V I N G T H E C O N G R E S S A N D T H E N A T I O N



*Performance and  
Accountability*  
HIGHLIGHTS

Fiscal 2002

# SERVING THE CONGRESS

## GAO'S MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

## SCOPE OF WORK

GAO performs a range of oversight-, insight-, and foresight-related engagements, a vast majority of which are conducted in response to congressional mandates or requests. GAO's engagements include evaluations of federal programs and performance, financial and management audits, policy analyses, legal opinions, bid protest adjudications, and investigations.

## CORE VALUES

### ACCOUNTABILITY

We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO's analysts, auditors, lawyers, economists, information technology specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people.

### INTEGRITY

We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of reputation, and the GAO approach to work ensures both.

### RELIABILITY

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

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## *From the Comptroller General*




Source: GAO.

January 31, 2003

It is indeed a pleasure to present GAO's performance and accountability report for fiscal 2002. In the spirit of the Government Performance and Results Act (GPRA), this annual report informs the Congress and the American people about what we have achieved on their behalf. Importantly, we received a clean opinion from independent auditors on our financial statements for the 16th consecutive year. I am confident that the financial information and the data measuring GAO's performance contained in this report are complete and reliable.

The year 2002 was marked by certain new and unprecedented challenges for the federal government. In the aftermath of the September 11, 2001, terrorist attacks and the delivery of anthrax spores through the mail, securing the safety of Americans at home and abroad became the foremost national priority. It was also a year of economic challenges: not just falling stock prices, but diminished public confidence in certain corporate institutions and in the ability of government to effectively oversee financial markets. The troubles experienced at Enron and other corporations and the related conduct of auditors and various other parties had far reaching effects.

The threat of terrorism and the damage done to Americans' economic well-being in 2002 were but two challenges among many—some of them long-standing challenges with which the Congress continues to grapple. The nation's changing demographics, the educational needs of its children, the long-term viability of Social Security and Medicare, the rising cost of health care and the millions of Americans who are uninsured, the vulnerability of the government's computer systems to sabotage, the requirements of the armed forces in the face of new threats to national security—these and other challenges continued to engage the attention of the Congress and therefore helped define the year's priorities at GAO.



As a key source of objective information and analysis, GAO played a crucial role in supporting congressional decision making. For example, GAO's work informed the debate over national preparedness strategy, helping the Congress answer questions about the associated costs and program trade-offs and providing perspectives on how best to organize and manage the new Transportation Security Administration and the new Department of Homeland Security. GAO's input was a major factor in helping to shape the Sarbanes-Oxley Act, which created the Public Company Accounting Oversight Board as well as new rules to strengthen corporate governance and ensure auditor independence. Further, GAO's work helped the Congress develop and enact election reform legislation in the form of the Help America Vote Act of 2002.

The Congress and the executive agencies took a wide range of actions based on GAO analyses and recommendations. These included reducing improper payments under the Medicare program, reducing the risks associated with agriculture loan programs, and improving the oversight of contingency appropriations for defense. In total, GAO's efforts helped the Congress and government leaders achieve \$37.7 billion in financial benefits—an \$88 return on every dollar invested in GAO.

That return on the public's investment in GAO extends beyond dollar savings to improvements in how the government serves its citizens. Whether by spurring efforts to coordinate emergency preparedness by federal, state, and local agencies; by informing the Congress and the public about the risks involved in private pension plans; or by helping federal agencies improve their oversight of the nation's food safety system, GAO is contributing directly to bettering Americans' daily lives. Another way we do this is by raising congressional and public awareness of emerging national problems. For example, we underscored for the Congress the prevalence of security weaknesses at American seaports, the nature and growing cost of identity theft, weaknesses in export controls over sophisticated weapons technologies, inadequacies in nursing home care, and shortages of children's vaccines. The more the nation's leaders



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in the public, nonprofit, and private sectors know about these growing challenges, the sooner they will be able to craft effective responses.

Access to the information the Congress wishes to have become a special issue for GAO during the year when, for the first time in our history, we used our statutory authority to file suit in order to obtain certain government records from an executive branch official. The action came about after we received congressional requests from four Senate Committee Chairs and Subcommittee Chairs and two House Members for information on meetings between private-sector individuals and a White House energy task force chaired by the Vice President on the development of the President's proposed National Energy Policy. Starting in May 2001, we sought limited factual information from the Vice President in his capacity as chairman of the National Energy Policy Development Group. He refused to disclose a range of information, such as the dates, locations, subjects, and attendees involved in the group's meetings with external parties. We repeatedly explained our explicit statutory audit and access authority, streamlined our requests, and offered the White House flexibility in how the information might be provided. Furthermore, the administration did not take advantage of the statutory provision that could have prevented a suit and did not claim executive privilege. We reluctantly filed suit in federal district court in February 2002 under the provisions of GAO's statutory authorities, asking the court to direct that the requested records be produced.

In December 2002, the district court dismissed our suit for lack of standing. In doing so, the court did not address the merits of the case—including GAO's fundamental audit or access rights—but instead ruled that as Comptroller General, I lacked standing to enforce this agency's access rights in court. In his ruling, the judge stated that the issues involved and the nature of the congressional interest in the records were not sufficient to have the court decide the dispute. We strongly disagree with the court's ruling, but as this report goes to press, we are reviewing the court's decision and analyzing its basis and potential implica-

tions. Once this review is completed and we have consulted with the Congress's leadership on a bipartisan basis, I will decide whether to appeal the decision to the circuit court.

The value of information in serving our clients is driven home to us every day at GAO. It is not just a matter of obtaining facts from the executive branch but also of observing best practices in and out of government and how they are or can be applied. For instance, how well the government delivers on its promises frequently depends on how well it applies fundamental modern management principles. Strategic planning, organizational alignment, performance management, financial management, information technology, human capital strategy, knowledge management, and change management are key elements in maximizing performance and ensuring accountability. We have significantly increased the amount of our work focused on these areas to enhance the implementation of these principles throughout the federal government.

We don't just preach modern management principles at GAO. We practice what we preach, and we aim to lead by example. We continued this year to make significant progress in improving our human capital programs, our information technology capabilities, and our change management practices. All of these are key areas in which we seek to be a model for other federal agencies.

Visitors to GAO headquarters may have felt, as I do, that the building itself somehow conveys a sense of solidity and purpose. There is a new plaque in the lobby of GAO headquarters that commemorates another quality of the organization and its people: a readiness to contribute in



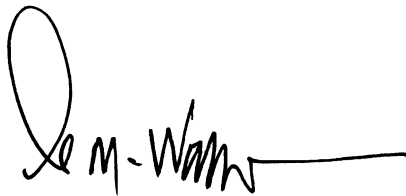
Source: GAO.

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whatever way may be needed to support our country, the Congress, and the continuity of representative government. On October 23, 2001, with only 3 days' notice, we opened our doors to the 435 members of the House of Representatives and selected members of their staffs. As they set up quarters at GAO, their Capitol Hill offices were checked for traces of anthrax. It was the first time since the War of 1812, when the Capitol and the White House were burned, that the House of Representatives sought alternative housing.

Working with congressional and contractor staff, we were able to provide the telecommunications, computer, and other services needed to conduct the business of the House as 1,200 members of our staff shifted to alternative locations. Through it all, our work went on, and we continued to issue reports and to testify on issues important to the Congress and the public. I am very proud of how, in a time of uncertainty, the people of GAO responded with a positive attitude in doing whatever their country required and an unwavering resolve to continue their work. Knowing this organization as I do, I was not surprised.

In summary, fiscal 2002 was truly an exceptional year. I believe that those who read this report will agree with me that taxpayers receive an excellent return on their investment in GAO.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

# In fiscal 2002, GAO served the Congress

- Create a national preparedness strategy at the federal, state, and local levels that will make Americans safer from terrorism
- Devise election reforms to restore voter confidence
- Protect investors through better oversight of the securities industry and the accounting profession
- Ensure a safer national food supply
- Expose the inadequacy of nursing home care
- Make income tax collection fair, effective, and less painful to taxpayers
- Strengthen public schools' accountability for educating children
- Keep sensitive American technologies out of the wrong hands
- Protect American armed forces confronting chemical or biological weapons
- Identify the risks to employees in private pension programs
- Identify factors causing the shortage of children's vaccines
- Assist the postal system in addressing anthrax and various management challenges





and the American people by helping to —

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- Identify security risks at ports, airports, and transit systems
- Save billions by bringing sound business practices to the Department of Defense
- Foster human capital strategic management to create a capable, effective, well-managed federal workforce
- Ensure that the armed forces are trained and equipped to meet the nation's defense commitments
- Enhance the safety of Americans and foreign nationals at U.S. installations worldwide
- Assess ways of improving border security through biometric technologies and other means
- Reduce the international debt problems faced by poor countries
- Reform the way federal agencies manage their finances
- Protect government computer systems from security threats
- Enhance the transition to e-government—the new “electronic connection” between government and the public



## *Introduction*

The U.S. General Accounting Office is an independent, nonpartisan, professional services agency in the legislative branch that is commonly regarded as the audit, evaluation, and investigative arm of the Congress. Created in 1921 as a result of the Budget and Accounting Act, GAO's "watchdog" role has evolved over the decades as the Congress expanded our statutory authority and called on us with increasing frequency for support in carrying out its legislative and oversight responsibilities.

Today, we examine the full breadth and scope of federal activities and programs, publish thousands of reports and other documents annually, and provide a number of related services intended to aid decision makers and the general public alike. We also study national and global trends to anticipate their implications for public policy. By making recommendations to improve the accountability, operations, and services of government agencies, GAO contributes not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in their government.

To accomplish our mission, we rely on a workforce of highly trained professionals who hold degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, computer science, and the social and physical sciences. They are arrayed in 13 research, audit, and evaluation teams and one temporary or "virtual" team on national preparedness. These teams are backed by staff offices and mission support units. About three-quarters of our approximately 3,200 employees are based at our headquarters in Washington, D.C.; the rest are deployed in 11 field offices.

On the pages that follow, we summarize our performance for fiscal 2002. We also present condensed financial statements and the independent auditor's opinion on them. If you would like additional information, please see the full-length version of our performance and accountability report at [www.gao.gov/sp.html](http://www.gao.gov/sp.html). Our performance plan for fiscal 2004 will be available through that same page as soon as the budget process permits.

## *GAO's Performance*

Fiscal 2002 was a year of challenges, not just for GAO but also for the Congress and the nation GAO serves. The nation's vulnerabilities were exposed in a series of crises—America's vulnerability to sophisticated terrorist networks, America's vulnerability to bioterrorism waged through mechanisms as mundane as the daily mail, and America's vulnerability to corporate misconduct capable of wiping out jobs, pensions, and investments virtually overnight.

As the Congress's priorities evolved to meet these crises, GAO's challenge was to respond quickly and effectively to our congressional clients' changing needs. Under our original strategic plan, published in spring 2000, we had already streamlined and realigned GAO's structure and resources to better serve the Congress in its legislative, oversight, and investigative roles. The new human capital initiatives we had begun, including recruiting, hiring, and professional development, equipped us to operate in a constantly changing knowledge environment. The steps that we took to enhance our information technology capabilities served to increase our productivity, consistency, and responsiveness. And with work already under way across a spectrum of critical policy and performance issues, we had a head start toward meeting the Congress's needs in a year of unexpected and often tumultuous events.

We were, for instance, asked to assist with the deliberations over the Department of Homeland Security's formation by looking into questions involving flexibilities for managing human capital, information sharing, management, acquisition, budget and program transfer authorities; and lessons available from other reorganizations in the public and private sectors. Teams with different specialties from across GAO collaborated on that effort and also pursued specific aspects of national preparedness. For example, building on an extensive body of completed work, we provided important information to the Congress as it drafted the Aviation and Transportation Security Act, while providing continuing assistance with information on aviation, port, and transit security.

Building on our previous work on the outbreak of West Nile virus and our examination of state and local efforts to meet the challenges all epidemics pose—those of detection and treatment—we aided the Congress's decision making about how to equip and organize the Department of Homeland Security to prepare for and respond to bioterrorism.

We were also deeply involved in congressional efforts to address terrorism insurance issues—raising alternative strategies and suggesting guiding principles based on past efforts to assist industries and firms in times of crisis, such as

the savings and loan industry and, more recently, the aviation industry.

As we gathered information and conducted analyses for the Congress, developed recommendations for improvements, and detailed the potential ramifications of policies to address the national problems the Congress was confronting, we continued work on the issues that the Congress had faced before homeland security gripped the nation's attention. Among these was a wide range of issues that also directly affect the lives of Americans:

- We, for instance, helped policymakers probe the issues behind the shortages in the supplies of vaccines for childhood illnesses, such as measles, mumps, rubella, and tetanus, clarifying the variety of contributing factors and exploring the key questions, such as how more manufacturing and competition can be encouraged, how adequate oversight can be provided, and how stockpiles can be amassed.
- Our work also helped policymakers—and the public—understand private pension issues in the wake of the Enron bankruptcy and other corporate failures, including the questions they raised for workers nationwide. For instance, in early 2002, the Comptroller General convened a forum on corporate governance, transparency, and accountability that highlighted a

number of systemic issues, including concerns related to employee pension and savings plans. And we alerted the Congress to weaknesses that may exist in the legal protections for employee pensions. We highlighted the ways in which employers' stock investment decisions can increase the risks to which employees' pension plans are exposed and recommended improvements to the information employees must receive. We also issued a guide for Members of Congress, their staffs, and the public called *Answers to Key Questions about Private Pension Plans* ([www.gao.gov/cgi-bin/gettrpt?rptno=GAO-02-745sp](http://www.gao.gov/cgi-bin/gettrpt?rptno=GAO-02-745sp)), which explains in easy-to-understand terms the concepts and rules that last year became sharply relevant to the future economic security of millions of Americans.

- Our work on the elections process contributed to reform legislation drafted in response to the voting problems that came to national prominence in the November 2000 presidential election. A series of our reports disclosed major challenges involving the people, processes, and technology used at each stage of the election process—registering voters, absentee and early voting, preparing for and conducting election day activities, and tabulating votes in the 10,000 local election jurisdictions nationwide. The legislation passed by

**Selected Public Laws to Which GAO Contributed During Fiscal 2002 Included —**

- Prescription Drug User Fee Amendments of 2002, P.L. 107-188
- Best Pharmaceuticals for Children Act, P.L. 107-1092
- No Child Left Behind Act of 2001, P.L. 107-110
- Food Stamp Reauthorization Act of 2002, P.L. 107-171
- Help America Vote Act of 2002, P.L. 107-252
- Homeland Security Act of 2002, P.L. 107-296
- Public Health Security and Bioterrorism Preparedness and Response Act of 2002, P.L. 107-188
- Aviation and Transportation Security Act, P.L. 107-71
- Department of Defense Appropriation Act, 2003, P.L. 107-248
- Department of Defense and Emergency Supplemental Appropriations for Recovery From and Response to Terrorist Attacks on the United States Act, 2002, P.L. 107-117
- Bob Stump National Defense Authorization Act for Fiscal Year 2003, P.L. 107-314
- Foreign Relations Authorization Act, Fiscal Year 2003, P.L. 107-228
- Small Business Paperwork Relief Act of 2002, P.L. 107-198
- Federal Information Security Management Act of 2002, P.L. 107-347
- Sarbanes-Oxley Act of 2002, P.L. 107-204
- National Defense Authorization Act for Fiscal Year 2002, P.L. 107-107
- Legislative Branch Appropriations, Fiscal Year 2002, P.L. 107-68
- Improper Payments Information Act of 2002, P.L. 107-300
- Trade Act of 2002, P.L. 107-210
- Terrorism Risk Insurance Act of 2002, P.L. 107-297
- E-Government Act of 2002, P.L. 107-347



the Congress addresses federal subsidies for voting machinery, standards for the equipment, improved voter registration rolls, and improved access for voters with disabilities.

By year's end, we had testified 216 times before the Congress, sometimes on as little as 24 hours' notice, on a range of issues, including those listed on the next page. We had filled hundreds of urgent requests for information. We had developed 1,950 recommendations for improving the government's operations, including, for example, those we made to the Secretary of State calling for the development of a governmentwide plan to help other countries combat nuclear smuggling and those we made to the Chairman of the Federal Energy Regulatory Commission calling for his agency to develop an action plan for overseeing competitive energy markets. We also had continued to track the recommendations we had made in past years, checking to see that they had been implemented and, if not, whether we needed to do follow-up work on problem areas. We found, in fact, that 79 percent of the recommendations we had made in fiscal 1998 had been implemented, a significant step when the work we have done for the Congress becomes a catalyst for creating tangible benefits for the American people.

# ISSUES ON WHICH GAO TESTIFIED DURING FISCAL 2002

## GOAL 1

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

Aviation security  
Bioterrorism  
Blood supplies  
Child Welfare  
Childhood vaccines  
Coast Guard's security missions  
Customs' cargo inspections  
Disability programs  
EPA cabinet status  
FBI reorganization  
Federal property management reform  
Food safety  
Highway trust fund  
Housing  
HUD management reform  
Identity theft  
Immigration enforcement  
Indian tribal recognition  
Intercity passenger rail  
Long-term care  
Medicare payments  
Nuclear waste storage  
Nursing homes  
Postal Service challenges  
Public health aspects of homeland security  
Retiree health insurance  
SBA's human capital challenges  
Social Security reform  
Transit safety and security  
VA health care  
Welfare reform  
Wildfire threats  
Workforce development

## GOAL 2

### Changing Security Threats and Challenges of Globalization

A-76 competitive sourcing  
Anthrax vaccine  
Ballistic missile defense  
Chemical and biological preparedness  
Combating terrorism  
Compact with Micronesia  
Conflict diamonds  
Debt relief for poor countries  
Encroachment on training ranges  
Export controls  
Food aid  
Foreign language needs  
Gulf War illnesses  
Information security aspects of homeland security  
International trade  
Nuclear smuggling  
Organizational aspects of homeland security  
SEC's human capital challenges  
Strategic seaport protection  
Terrorism insurance  
U.S. overseas presence  
Weapons of mass destruction

## GOAL 3

### Transforming the Federal Government's Role

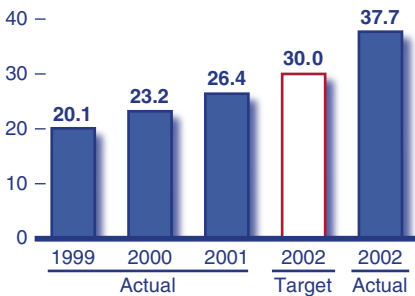
Contract management  
Contracting for services  
Corporate governance and accountability  
Debt collection  
DOD financial management  
Electronic Government Act of 2002  
Electronic-government security  
Enterprise architecture  
Federal budget issues  
Federal building security  
Federal financial management reform  
Federal rulemaking requirements  
Freedom to Manage Act  
Human capital strategy  
Illegal tax schemes and scams  
Intergovernment aspects of homeland security  
IRS modernization  
Medicaid financial management  
NASA's management challenges  
President's Management Agenda  
Purchase card controls  
Securing America's borders  
U.S. government's financial statements



In fiscal 2002, we recorded 906 instances in which our work led to improvements in government operations or programs. For example, by acting on GAO's findings or recommendations, the federal government has taken important steps toward enhancing aviation safety, improving pediatric drug labeling based on research, better targeting of funds to high-poverty school districts, greater accountability in the federal acquisition process, and more effective delivery of disaster recovery assistance to other nations, among other achievements.

**Financial Benefits**

Dollars in billions

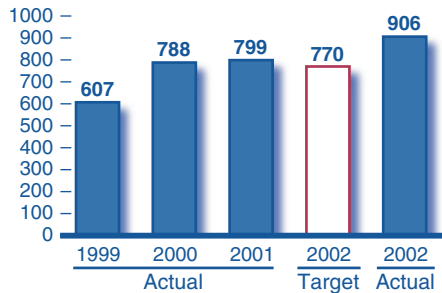


Source: GAO.

Note: Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent. See the full-length version of this report at [www.gao.gov/sp.html](http://www.gao.gov/sp.html) for details.

**Other Benefits**

Number of actions



Source: GAO.

In another 115 instances, federal action on GAO's findings or recommendations produced financial benefits for the American people: a total of \$37.7 billion was achieved by making government services more efficient, improving the budgeting and spending of tax dollars, and strengthening the management of federal resources. Increased funding for improved safeguards against fraud and abuse helped the Medicare program to better control improper payments of \$8.1 billion over 2 years, for instance, and better policies and controls reduced losses from farm loan programs by about \$4.8 billion across 5 years. Altogether, GAO's fiscal 2002 financial benefits translate into a financial return on investment of \$88 for every dollar budgeted for GAO.

Of our seven agencywide annual performance targets (see the table), only one was not met: timeliness. While we provided 96 percent of our products to their congressional requesters by the

date promised, we did not hit this measure's target of 98 percent on-time delivery. The year's turbulent events played a part in our missing the target, causing us to delay work in progress when higher-priority requests came in from the Congress. We know we will continue to face factors beyond our control as we strive to improve our performance in this area. But we believe the agency protocols we are piloting will help clar-

ify aspects of our interactions with the agencies we evaluate and audit and, thus, expedite our work in ways that could improve the timeliness of our final products. We also believe that our continuing investments in human capital and information technology will improve our timeliness while allowing us to maintain our high level of productivity and performance overall.

**Annual Measures and Targets**

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002		4-year avg. Actual	2003 Target
				Target	Actual		
Financial benefits (billions)	\$20.1	\$23.2	\$26.4	\$30.0	\$37.7 <sup>a</sup>	\$26.9	\$32.5 <sup>b</sup>
Other benefits	607	788	799	770	906	775	800 <sup>b</sup>
Past recommendations implemented	70%	78%	79%	75%	79%	N/A	77%
New recommendations made	940	1,224	1,563	1,200	1,950	1,419	1,250 <sup>b</sup>
New products with recommendations	33%	39%	44%	45%	53%	42%	50%
Testimonies	229	263	151	200	216	215	180 <sup>b</sup>
Timeliness	96%	96%	95%	98%	96%	96%	98%

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits caused the fiscal 2002 results to increase about 11 percent. See the full-length version of this report at [www.gao.gov/sp.html](http://www.gao.gov/sp.html) for details.

<sup>b</sup>Four targets published in GAO's performance plan for fiscal 2003 were subsequently revised based on more current information. Two were raised; two were lowered. The original targets were financial benefits, \$35 billion; other benefits, 785; recommendations made, 1,200; and testimonies, 210.

N/A = not applicable

At the beginning of fiscal 2002, as we prepared an updated draft of our strategic plan for congressional comment—extending the plan to fiscal 2007 and factoring in developments that had occurred since we first issued it in fiscal 2000—it was clear that the world had changed considerably. When the original plan was issued, the nation had been enjoying a period of peace and prosperity, with large budget surpluses projected into the future. When the updated plan went onto the Web in 2002, the nation was at war against terrorism, both within and outside its borders. The economic outlook had become difficult to predict. And the federal government faced the return of serious, long-range budget deficits and the burden they impose on the nation's future prosperity.

The updated plan carried forward the four strategic goals we had already established as the organizing principles for a body of work that is as wide-ranging as the interests and concerns of the Congress itself. While these strategic goals, shown on page 18 with their strategic objectives, help us plan our work and assess our progress in fulfilling our mission to serve the Congress and the nation, they are not separate endeavors. We developed them with the intention of moving away from “siloes”—or compartmentalized—approaches to doing business on a matrixed basis. As the challenges facing policymakers grow more complex and interdependent, the

only way a knowledge-based, multidisciplinary professional services organization such as GAO can be effective is to be flexible and capable of responding quickly to change. As a result, we have sought more cooperative, partnership approaches that maximize the skills and expertise of people working together toward the same ends.

In later sections of this booklet, we highlight our performance under each of our strategic goals and the strategies and challenges involved in achieving those goals—including the management challenges and external factors we face. We also summarize how we used our resources in fiscal 2002, including our costs by strategic goal.



## Helping the Government Improve Performance and Accountability

Every 2 years, with the start of each new Congress, GAO issues an update of the high-risk series, which identifies and reports on federal programs and operations that have greater vulnerabilities to waste, fraud, abuse, and mismanagement or that have major challenges associated with their economy, efficiency, or effectiveness.

Lasting solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the American public, strengthen public confidence and trust in the performance and accountability of the national government, and ensure the ability of government to deliver on its promises.

Since 1990, the Congress's and federal agencies' commitment to resolving serious, long-standing high-risk problems has paid off—the root causes of half the 14 high-risk areas on our original list have been addressed. This sustained commitment continues to produce results. In 2001, GAO identified 23 high-risk areas. Since then, demonstrable progress has been made in virtually all of them.

GAO has increasingly used the high-risk designation to draw attention to the challenges faced by government programs and operations in need of broad-based transformation. Three of the new high-risk areas on the 2003 list fall into that category, while a fourth new area involves fraud, waste, abuse, and mismanagement, the type of problem GAO continues to identify.

To learn more about these new high-risk areas, to review the full list of high-risk areas, or to download the update in full, go to [www.gao.gov/pas/2003/](http://www.gao.gov/pas/2003/).

# SERVING THE CONGRESS GAO'S STRATEGIC PLAN FRAMEWORK

## MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.



## CORE VALUES

Accountability

Integrity

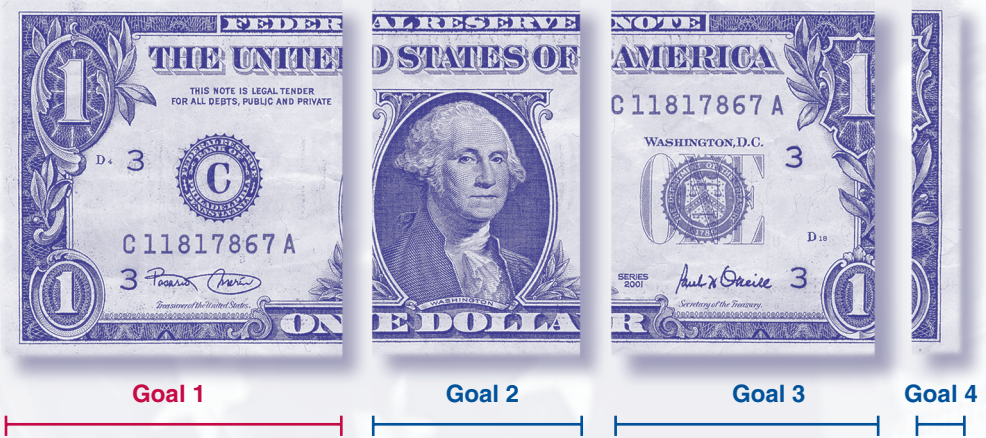
Reliability

Fiscal 2002-2007

Source: GAO.

# Goal 1

Goal 1's Cost: \$178.3 Million  
39% of GAO's Total



Goal 1

Goal 2

Goal 3

Goal 4

**Well-being and financial security of American people**

## Results

\$24.1 billion in financial benefits

- Safeguarding Medicare from fraud and abuse, \$8.1 billion
- Improving HUD's budget practices, \$4.9 billion
- Reducing losses from farm loans, \$4.8 billion
- Reducing costs of hazardous waste cleanup at Hanford, \$1.5 billion
- Additional financial benefits, \$4.8 billion

226 other benefits

- Improving pediatric drug research and labeling
- Simplifying requirements for food stamp eligibility and benefits
- Better targeting education funds to high-poverty school districts
- Protecting taxpayers from faulty analyses of major public works programs
- 222 additional benefits

524 new recommendations made

- Develop strategy for expanding stockpiles of childhood vaccines
- Develop an action plan for overseeing competitive energy markets
- 522 additional improvements recommended

111 testimonies

- Aviation security
- Bioterrorism
- Food safety
- Nursing homes
- 107 additional hearings on topics of national importance

# Goal 2

Goal 2's Cost: \$110.5 Million  
24% of GAO's Total



## \$8.4 billion in financial benefits

- Reducing DOD's foreign currency exchange estimates, \$1.5 billion
- Consolidating and modernizing DOD's computer center activities, \$859 million
- Reducing funding for the V-22 development program, \$763.8 million
- Better management of DOD's satellite capacity, \$702 million
- Additional financial benefits, \$4.6 billion

## 218 other benefits

- First steps toward unifying homeland security efforts
- Stronger measures to prevent unapproved export of missile parts
- More effective delivery of disaster recovery assistance to other nations
- Improving Peace Corps' safety and security practices
- 214 additional benefits

## 618 new recommendations made

- Develop governmentwide plan to help other countries combat nuclear smuggling
- Make engineering and manufacturing investments in technologies proven to be mature
- Develop overall investment plan for the National Security Space Strategy
- 615 additional improvements recommended

## 38 testimonies

- Combating terrorism
- Chemical and biological preparedness
- Conflict diamonds
- Foreign language needs
- 34 additional hearings on topics of national importance



# Goal 3

Goal 3's Cost: \$141 Million  
31% of GAO's Total



**Transforming the  
federal government's  
role**

## Results

### \$5.2 billion in financial benefits

- Improving Defense Department's computer centers' operations, \$859 million
- Improving collection of nontax debts owed to the U.S. government, \$300 million
- Additional financial benefits, \$4 billion

### 462 other benefits

- Greater accountability in the federal acquisition process
- Improved implementation of Paperwork Reduction Act
- Data stewardship strategies to protect individuals' privacy
- Audit testing approach for forensic audits to identify fraud, waste, and abuse
- Improved government debt management
- 457 additional benefits

### 808 new recommendations made

- Better protect government credit cards from misuse
- Audit agencies' compliance with cost accounting standards
- Reassess the requirements for recertifying eligibility for the Earned Income Tax Credit
- 805 additional improvements recommended

### 65 testimonies

- Intergovernmental aspects of homeland security
- Contract management
- Corporate governance and accountability
- Human capital
- Illegal tax schemes and scams
- U.S. government's financial statements
- 59 additional hearings on topics of national importance



# Goal 4

Goal 4's Cost: \$25.3 Million  
6% of GAO's Total



## Results

### Sharpen focus on clients' and customers' requirements

- Piloted Web-based feedback system for congressional clients
- Provided emergency relocation support
- Developing agency and international protocols

### Enhance leadership and promote management excellence

- Increased security of GAO's facilities and information systems
- Maintained integrity in financial management
- Continued to provide leadership in human capital strategy and management

### Leverage institutional knowledge and experience

- Improved management of agency records
- Piloted knowledge-sharing among GAO units
- Increased capacity through knowledge-sharing and collaboration

### Continuously improve business and management processes

- Improved guidance and tracking for GAO engagements
- Developed "highlights" page to encapsulate information from a GAO report on a single page
- Donated excess computer equipment to schools

### Become professional services employer of choice

- Implemented competency-based performance system for analysts, specialists, and attorneys
- Developed new training process and expanded executive training opportunities
- Continued recruitment focus on diversity

## *Strategies and Challenges*

As the audit, evaluation, and investigative arm of the Congress, GAO has a unique role to play. Within the legislative branch, we are the only agency with staff in the field, conducting performance analyses and financial accounting among other congressionally requested activities, and reporting our findings not only to our congressional clients but also to the American public. While we work with the Inspectors General at every federal agency, our engagements differ from theirs in that ours are often more strategic and longer-range in nature, governmentwide in scope, and initiated by requests from the Congress.

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

- evaluating federal policies and the performance of agencies;
- overseeing government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- investigating whether illegal or improper activities are occurring;
- analyzing the financing for government activities;

- conducting constructive engagements in which we work proactively with agencies, when appropriate, to provide advice that may assist their efforts toward positive results;
- providing legal opinions that determine whether agencies are in compliance with applicable laws and regulations;
- conducting policy analyses to assess needed actions and the implications of proposed actions; and
- providing additional assistance to the Congress in support of its oversight and decision-making responsibilities.

Because achieving our strategic goals and objectives also requires strategies for coordinating with other organizations with similar or complementary missions, we

- use advisory panels and other bodies to inform GAO's strategic and annual work planning, and
- initiate and support collaborative national and international audit, technical assistance, and other knowledge-sharing efforts.

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

lead the work with most of the issue-specific organizations.

Among these efforts is our work with the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of the national audit offices of 184 countries. During fiscal 2002, GAO led a 10-nation task force in developing a strategic planning framework for the organization that was approved in October 2002. In fiscal 2003, the task force will expand the framework into a comprehensive strategic plan. The Comptroller General also leads the Global Working Group, in which the heads of GAO's counterparts from 15 countries discuss mutual challenges, share experiences, and identify opportunities for collaboration with one another. GAO also chairs INTOSAI's accounting standards committee and is an active member of the auditing standards, internal control standards, and public debt committees.

Domestically, the Comptroller General chairs the National Intergovernmental Audit Forum, and through 10 regional intergovernmental audit forums, GAO consults regularly with federal inspectors general and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate. The Comptroller General is also one of the four principals of the

Joint Financial Management Improvement Program, who are actively fostering financial management reform governmentwide.

### *Addressing Management Challenges That Could Affect Our Performance*

GAO has three management challenges that may affect our performance. Two of the challenges—human capital and physical security—were identified in our previous performance and accountability report. We have made progress in addressing each of these challenges, but we still have work to do. The third challenge, information security, will replace our previous challenge of information technology. With the establishment of a stable and reliable computer network and institutionalized standard routine updates of network and desktop operating systems and equipment, we will have completed our work on the original management challenge. However, independent reviews of our information security program indicate a need for further improvement.

Given GAO's role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. We spend about 80 percent of our resources on our people, but without excellent human capital management, we could still run the risk of being unable to deliver what the Con-

gress and the nation expect from us. In 1999, after an extended hiring freeze, GAO's workforce was sparse at the entry level, and we faced succession planning issues as a large number of our senior managers and analysts became eligible to retire. The development and training of our senior executives had been curtailed for funding reasons. And at the same time, more of our staff needed enhanced technical skills if they were to assist the Congress effectively. In all those respects, GAO was little different from the government as a whole. In the years since, we have addressed these issues in a variety of ways and are continuing to do so. For example, we developed a recruitment program that allowed us to hire 430 permanent staff during fiscal 2002, revamped and modernized the performance appraisal system for analysts and attorneys, and implemented a succession-planning program.

Over the next several years, we need to continue to address skill gaps, maximize staff productivity and effectiveness, and reengineer our human capital processes to make them more user-friendly. We plan to address skill gaps by further refining our recruitment and hiring strategies to target gaps identified through our workforce planning efforts, while taking into account the significant percentage of our workforce eligible for retirement. We will reengineer our human capital systems and practices to increase their efficiency and to take full

advantage of technology. We will also ensure that our staff have the needed skills and training to function in this reengineered environment. In addition, we are developing a competency-based performance system for our mission support employees.

During the 108th Congress, we will work with our appropriations and oversight committees to achieve enactment of legislation to support our continuing efforts to be a leader in federal human capital management and a world-class organization. To build on the human capital flexibilities provided by the Congress in 2000, we will identify opportunities for additional flexibilities that would, among other things, facilitate GAO's continuing efforts to develop a more performance-based compensation system, realign our workforce, and provide greater opportunities for staff to phase into retirement.

In the aftermath of the September 11 terrorist attacks and subsequent anthrax incidents, our ability to provide a safe and secure workplace emerged as a challenge for our agency. Protecting our people and our assets is critical to our ability to carry out our mission. We devoted additional resources to this area and implemented measures such as reinforcing vehicle and pedestrian entry points, installing an additional x-ray machine, adding more security guards, reinforcing windows, and relocating air sources. We are in the process of researching and

designing other projects to better control building access and security around the building. We plan to implement these projects over the next several years.

Ensuring information systems security and disaster recovery systems that allow for continuity of operations is a critical requirement for the agency, particularly in light of the events of September 11 and the anthrax incidents. The risk is that our information could be compromised and that we would be unable to respond to the needs of the Congress in an emergency. In light of this risk, and in keeping with our goal of being a model federal agency, we are implementing an information security program consistent with the requirements in the Government Information Security Reform provisions (commonly referred to as "GISRA") enacted in the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001. We have made progress through our efforts to, among other things, implement a risk-based, agencywide security program; provide security training and awareness; and develop and implement an enterprise disaster recovery solution.

However, we need to complete certain key actions to be better able to detect intruders in our systems, identify our users, and recover in the event of a disaster. Among our current efforts and plans for these areas are completing the installation of software that helps us detect

intruders on all our internal servers, completing the implementation of a secure user authentication process, and refining the disaster recovery plan we developed last year.

At GAO, management challenges are identified by the Comptroller General and the agency's senior executives through the agency's strategic planning, management, and budgeting processes. Our progress in addressing the challenges is monitored through our annual performance and accountability process. Under strategic goal 4, we establish performance goals focused on each of our management challenges and track our progress in completing the key efforts for those performance goals quarterly. The performance goals are assessed and updated each year.

GAO's Inspector General reviews management's assessment of the challenges and the agency's progress in addressing them. The memorandum on the Inspector General's findings is reprinted at the end of this report.

### *Mitigating External Factors That Could Affect Our Performance*

Several external factors could affect the achievement of our performance goals, including national and international developments and the resources we receive. Limitations imposed on our work by other organizations or limitations on the ability of other federal agen-



cies to make the improvements we recommend are other factors that could affect the achievement of our goals.

As the Congress focuses on unpredictable events—such as the global threat posed by sophisticated terrorist networks, international financial crises, or natural disasters—the mix of work we are asked to undertake may change, diverting our resources from some of our strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways:

- We are alert to possibilities that could shift the Congress's and, therefore, our priorities.
- We continue to identify in our products and meetings with the Congress conditions that could trigger new priorities.
- We quickly redirect our resources, when appropriate, so that we can deal with major changes that do occur.
- We maintain broad-based staff expertise so that we can readily address emerging needs.

As this report goes to press, the uncertainty about our fiscal 2003 funding levels was affecting when we will complete—and, in some cases, begin—initiatives to address our management challenges and other issues. Meeting the fiscal 2003 performance targets in this report and completing the work under

way to meet our 2-year performance goals are contingent on receiving the resources we are requesting from the Congress. Once actual funding is known, we may adjust our targets and performance goals to ensure that key congressional priorities are met.

A final external factor is the extent to which GAO can obtain access to certain types of information. Most notably, recent developments have raised concerns about whether records access challenges are likely to increase in the future. First, in December 2002, a district court dismissed a lawsuit GAO filed to obtain information about meetings held with private-sector individuals by the Vice President, in his capacity as chairman of the National Energy Policy Development Group, and the group's members and staff. The court did not address the merits of the case, but rather stated that the Comptroller General lacked standing in the matter. Second, the current administration has shown a tendency to not readily share certain information with GAO and the Congress that both have received in the past.

In addition, with concerns about operational security being unusually high at home and abroad, GAO may have more difficulty obtaining information and reporting on sensitive issues. Historically, our auditing and information gathering has been limited whenever the intelligence community is involved. Nor have we had the authority to access or

inspect records or other materials held by other countries or, generally, by the multinational institutions that the United States works with to protect its interests. Consequently, our ability to fully assess the progress being made in addressing homeland security issues may be hampered, and because some of our reports may be subjected to greater classification reviews than in the past, their public dissemination may be limited. We will work with the Congress to identify both legislative and nonlegislative opportunities for strengthening GAO's access authority as necessary and appropriate.

# Managing Our Resources

GAO's financial statements for fiscal 2002 received an unqualified opinion from an independent auditor. No material weaknesses in internal control were identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 (the Improvement Act) for financial systems. The auditor found no instances of noncompliance with the laws or regulations in the areas they tested. The statements and their accompanying notes, along with the auditor's report, appear later in this report. The table below summarizes key data.

Compared with the statements of large and complex agencies in the executive branch, GAO's statements present a rela-

tively simple picture of a small agency in the legislative branch that has most of its financial activity focused on the execution of its congressionally approved budget and most of its resources devoted to the human capital needed for its mission of supporting the Congress with information and analysis.

GAO's budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. For fiscal 2002, GAO's total budgetary resources increased by \$49.7 million from fiscal 2001. This increase consists primarily of additional current year appropriations to meet continuing program requirements and \$7.6 million in transfers of budget authority to conduct

## GAO's Financial Highlights: Resource Information

Dollars in millions

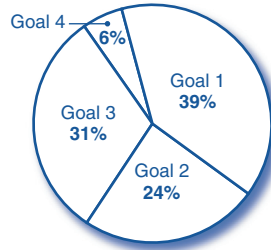
	Fiscal 2001	Fiscal 2002
Total budgetary resources	\$392.9	\$442.6
Total outlays	\$387.2	\$427.8
Net cost of operations		
Goal 1: Well-being and financial security of the American people	\$161.1	\$178.3
Goal 2: Changing security threats and challenges of globalization	93.4	110.5
Goal 3: Transforming the federal government's role	139.5	141.0
Goal 4: Maximizing the value of GAO	20.7	25.3
Less reimbursable services not attributable to goals	(1.6)	(2.1)
Total net cost of operations	\$413.1	\$453.0
Actual full-time equivalents	3,110	3,210

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

safety and security efforts to respond to the events of September 11. GAO’s total assets were \$126.8 million, consisting mostly of property and equipment (including the headquarters building, land, and improvements and computer equipment and software) and funds with the Treasury. Our total liabilities of roughly \$91.7 million were composed largely of employees’ accrued annual leave, amounts owed to other government agencies, accounts payable, and workers’ compensation liability.

GAO reports net costs by strategic goal to align our net costs with our strategic plan. As the figure indicates, our first goal, under which we organize our work on challenges to the well-being and financial security of the American people, accounted for the largest share of the costs. We expect this goal to continue to represent the largest share of our costs.

**Net Cost of Operations**  
FY 2002 total \$453 million



Source: GAO.

For fiscal 2003, GAO has requested a budget of \$457.8 million to maintain current operations to support the Congress as outlined in our strategic plan. This funding level—which is 6 percent above our 2002 funding level—would allow us to support our authorized level of 3,269 full-time-equivalent personnel and includes \$4 million to meet nonrecurring requirements to enhance the safety and security of GAO’s staff.

The following table provides an overview of how our budgetary and human capital resources will be allocated among GAO’s four strategic goals.

**GAO’s Revised Fiscal 2003 Budget**

<b>Strategic Goal</b>	<b>Dollars in millions</b>	<b>Full-time equivalent staff</b>
Goal 1: Well-being and financial security of the American people	\$177.6	1,275
Goal 2: Changing security threats and challenges of globalization	119.5	854
Goal 3: Transforming the federal government’s role	141.0	985
Goal 4: Maximizing the value of GAO	19.7	1555
<b>Total</b>	<b>\$457.8</b>	<b>3,269</b>

Almost 80 percent of GAO's fiscal 2003 budget will provide for employee compensation and benefits. The next largest portion of our budget—about \$55 million—is for contract services supporting both GAO's mission work and administrative operations, including information technology, training, security, and building maintenance and operations services. During fiscal 2003, we plan to increase our investments in human capital, information technology and security, and the safety and security of GAO's people, facilities, and other assets.

# Overview of Financial Statements

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

GAO is committed to fulfilling the internal control objectives of 31 U.S.C. 3512, formerly the Federal Managers' Financial Integrity Act (the Integrity Act) and the Federal Financial Management Improvement Act of 1996 (the Improvement Act). Although GAO is not subject to the acts, we comply voluntarily with the acts' requirements. GAO's management assesses compliance with these controls through a series of comprehensive internal reviews, applying the evaluation criteria in the Office of Management and Budget's guidance for implementing the Integrity Act. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken to correct deficiencies as they are identified.

GAO has assessed our internal controls as of September 30, 2002, based on the criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, we believe that we have effective internal controls in place, as of September 30, 2002. Additionally, an independent auditor found that GAO maintained effective internal controls over financial

reporting and compliance with laws and regulations. Consistent with GAO's evaluation, the auditor found no material internal control weaknesses.

GAO's Audit Advisory Committee assists the Comptroller General in overseeing the effectiveness of our financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to GAO's financial operations. As of September 30, 2002, the committee consisted of

- Sheldon S. Cohen (Chairman), a certified public accountant and practicing attorney in Washington, D.C., former Commissioner and Chief Counsel of the Internal Revenue Service, and Senior Fellow of the National Academy of Public Administration;
- Alan B. Levenson, a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission; and
- Katherine D. Ortega, a certified public accountant, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and a former member of the President's Advisory Committee on Small and Minority Business.

Condensed financial statements for GAO follow. Our detailed statements with their accompanying notes appear in the full-length version of this report. Our



financial statements for the fiscal year ended September 30, 2002, were audited by an independent auditor, Cotton & Co., LLP, which rendered unqualified opinions on our statements and on the effectiveness of our internal controls over financial reporting and compliance with laws and regulations. The auditor also reported that we had substantially complied with the applicable requirements of the Improvement Act and found no reportable instances of non-compliance with selected provisions of laws and regulations. In the opinion of the auditor, the financial statements are presented fairly in all material respects and are in conformity with generally accepted accounting principles.

**U.S. General Accounting Office  
Condensed Balance Sheet**

**As of September 30, 2002 and 2001**

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
<b>Assets</b>		
Intragovernmental assets including funds with the U.S. Treasury	\$62,442	\$56,736
Property and equipment, net	63,888	66,318
Other	486	401
<b>Total Assets</b>	<u>\$126,816</u>	<u>\$123,455</u>
<b>Liabilities</b>		
Intragovernmental liabilities	\$16,845	\$17,062
Accounts payable and salaries and benefits	23,227	28,636
Accrued annual leave and other	29,357	27,836
Workers' compensation	12,331	7,954
Capital leases	9,968	5,360
<b>Total Liabilities</b>	<u>\$91,728</u>	<u>\$86,848</u>
<b>Net Position</b>		
Unexpended appropriations	\$29,925	\$21,258
Cumulative results of operations	5,163	15,349
<b>Total net position</b>	<u>35,088</u>	<u>36,607</u>
<b>Total Liabilities and Net Position</b>	<u>\$126,816</u>	<u>\$123,455</u>

**U.S. General Accounting Office**  
**Condensed Statement of Net Cost**

For Fiscal Years Ended September 30, 2002 and 2001

(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
<b>Net Costs by Goal</b>		
Goal 1: Well-being/financial security of American people	\$178,381	\$161,112
Goal 2: Changing security threats/challenges of global Interdependence	110,537	93,440
Goal 3: Transforming the federal government's role	140,967	139,459
Goal 4: Maximize the value of GAO	25,278	20,695
Less: reimbursable services not attributable to goals	<u>(2,128)</u>	<u>(1,652)</u>
<b>Net Cost of Operations</b>	<u>\$453,035</u>	<u>\$413,054</u>

**U.S. General Accounting Office  
Condensed Statement of Changes in Net Position**

For Fiscal Years Ended September 30, 2002 and 2001

(Dollars in thousands)

	<u>2002 Cumulative Results of Operations</u>	<u>2002 Unexpended Appropriations</u>	<u>2001 Cumulative Results of Operations</u>	<u>2001 Unexpended Appropriations</u>
<b>Balances, Beginning of Fiscal Year</b>	\$15,349	\$21,258	\$18,761	\$23,515
<b>Budgetary Financing Sources</b>				
Current year appropriations	-	421,844	-	384,020
Appropriations used	419,046	(419,046)	387,148	(387,148)
Other	-	5,869	-	871
<b>Other Financing Sources</b>				
Employee benefit costs imputed to GAO	21,007	-	19,681	-
Other	2,796	-	2,813	-
<b>Total Financing Sources</b>	442,849	8,667	409,642	(2,257)
<b>Net Cost of Operations</b>	<u>(453,035)</u>	<u>-</u>	<u>(413,054)</u>	<u>-</u>
<b>Balances, End of Fiscal Year</b>	<u>\$5,163</u>	<u>\$29,925</u>	<u>\$15,349</u>	<u>\$21,258</u>

## U.S. General Accounting Office

### Condensed Statement of Budgetary Resources

For Fiscal Years Ended September 30, 2002 and 2001

(Dollars in thousands)

<b>Budgetary Resources</b>	<b>2002</b>	<b>2001</b>
Current year appropriations	\$421,844	\$384,020
Transfers of budget authority	7,600	983
Unobligated appropriations, beginning of fiscal year	7,512	4,264
Reimbursements	<u>5,687</u>	<u>3,676</u>
<b>Total Budgetary Resources</b>	<u><u>\$442,643</u></u>	<u><u>\$392,943</u></u>
 <b>Status of Budgetary Resources</b>		
Obligations incurred	\$426,714	\$385,319
Unobligated appropriations, end of fiscal year	14,198	7,512
Lapsed budget authority	<u>1,731</u>	<u>112</u>
<b>Total Status of Budgetary Resources</b>	<u><u>\$442,643</u></u>	<u><u>\$392,943</u></u>
 <b>Relationship of Obligations to Outlays</b>		
Obligations incurred	\$426,714	\$385,319
Obligated balance, net - beginning of fiscal year	48,970	50,851
Less: Obligated balance, net - end of fiscal year	<u>(47,856)</u>	<u>(48,970)</u>
<b>Total Outlays</b>	<u><u>\$427,828</u></u>	<u><u>\$387,200</u></u>
 <b>Outlays</b>		
Disbursements	\$427,828	\$387,200
Collections	<u>(5,687)</u>	<u>(3,676)</u>
<b>Net Outlays</b>	<u><u>\$422,141</u></u>	<u><u>\$383,524</u></u>

**U.S. General Accounting Office**  
**Condensed Statement of Financing**  
**For Fiscal Years Ended September 30, 2002 and 2001**  
(Dollars in thousands)

<b>Resources Used to Finance Activities</b>	<b>2002</b>	<b>2001</b>
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$426,714	\$385,319
Less: Reimbursements	<u>(5,687)</u>	<u>(3,676)</u>
Net Obligations	<u>421,027</u>	<u>381,643</u>
<b>Other Resources</b>		
Employee benefit costs imputed to GAO	21,007	19,681
Other	<u>2,796</u>	<u>2,813</u>
Net other resources used to finance activities	<u>23,803</u>	<u>22,494</u>
<b>Total resources used to finance activities</b>	<b>444,830</b>	<b>404,137</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net (increase) decrease in unliquidated obligations	(1,980)	5,505
Costs capitalized on the balance sheet	<u>(13,180)</u>	<u>(13,983)</u>
Total resources used to finance items not part of the net cost of operations	<u>(15,160)</u>	<u>(8,478)</u>
<b>Total resources used to finance the net cost of operations</b>	<b>429,670</b>	<b>395,659</b>
<b>Costs That Require Resources in Future Periods</b>		
Expenses to be funded by future appropriations	6,213	298
<b>Costs That Do Not Require Resources</b>		
Depreciation	<u>17,152</u>	<u>17,097</u>
<b>Net Cost of Operations</b>	<u><u>\$453,035</u></u>	<u><u>\$413,054</u></u>



# Independent Auditor's Report

## COTTON & COMPANY LLP

auditors ♦ advisors

DAVID L. COTTON, CPA, CFE, CGFM ♦ CHARLES HAYWARD, CPA, CFE, CISA ♦ MICHAEL W. GILLESPIE, CPA, CFE ♦ CATHERINE L. NOCERA, CPA, CISA  
MATTHEW H. JOHNSON, CPA, CGFM ♦ SAM HADLEY, CPA, CGFM ♦ COLETTE Y. WILSON, CPA ♦ ALAN ROSENTHAL, CPA

### Independent Auditor's Report

We audited the General Accounting Office's (GAO) Balance Sheets as of September 30, 2002, and 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the years then ended. In our report dated December 11, 2002, we stated that we found:

- The 2002 and 2001 financial statements referred to above are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- GAO maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2002,
- GAO's financial management systems substantially complied with the applicable requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- No reportable noncompliance with laws and regulations tested.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly presented, in all material respects, in relation to the financial statements from which it has been derived.

We performed our audit and examinations in accordance with *Government Auditing Standards*, U.S. generally accepted auditing standards, the American Institute of Certified Public Accountants' attestation standards, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

With respect to our opinion on internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected because of inherent limitations in internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

With respect to our opinion on GAO's financial management systems' compliance with FFMIA, our examination does not provide a legal determination of GAO's financial management systems compliance with specified requirements.

We are responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to GAO. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Our conclusion on compliance with laws and regulations is intended solely for the information and use of the management of GAO, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

COTTON & COMPANY LLP



Charles Hayward, CPA

Alexandria, Virginia  
December 11, 2002



333 NORTH FAIRFAX STREET ♦ SUITE 401 ♦ ALEXANDRIA, VIRGINIA 22314  
703/836/6701 ♦ FAX 703/836/0941 ♦ WWW.COTTONCPA.COM ♦ DCOTTON@COTTONCPA.COM



G A O

Accountability \* Integrity \* Reliability

## Memorandum

**Date:** November 27, 2002  
**To:** Comptroller General  
**From:** Inspector General – Frances Garcia  
**Subject:** Management Challenges

We have reviewed management's assessment of the management challenges. Based on our work and institutional knowledge, we agree that human capital, physical security, and information security are the management challenges that may affect our performance. We are in agreement with management's assessment of progress made in addressing these challenges.

In addition, we reviewed all fiscal 2002 accomplishment reports claiming financial benefits of \$1 billion or more and found that GAO has a reasonable basis for claiming these benefits. We plan to review the internal controls for several key performance measures in fiscal 2003.

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