

Performance & Accountability Highlights

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
SERVING THE CONGRESS AND THE NATION



Fiscal Year 2004



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; 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.



From the **Comptroller**
General *of the United States*

Source: GAO.

January 2005

As I reflect on GAO's work during the past fiscal year, I am pleased with and proud of our results in serving the Congress and the American people, which we convey in this summary of our fiscal year 2004 performance and accountability report that appears in full on our Web site at www.gao.gov. Our business involves helping to improve performance and ensure accountability in connection with a broad range of federal programs, policies, and activities. Simply put, we try to help improve the way the federal government works for the benefit of all of our nation's citizens. To determine our success, we set performance targets and follow financial management practices that help ensure that we are making the best use of the federal funds invested in us.

In short, fiscal year 2004 was an exceptional year for GAO. For example, we received a clean opinion from independent auditors on our financial statements and met or exceeded all but one of our key performance measures. In addition, we exceeded or equaled our all-time record for six of our seven key performance indicators while continuing to improve our client and employee feedback survey results. I am especially happy to report that we documented \$44 billion in financial benefits—a return of \$95 for every dollar spent, or \$13.7 million per employee. We also recorded over 1,000 nonfinancial benefits that helped to shape important legislation and increase the efficiency of various federal programs, thus improving the lives of millions of Americans. In addition, the rate at which our recommendations had been implemented by the Congress or federal agencies rose to 83 percent, and we made over 2,700 new recommendations in fiscal year 2004. We

just missed our timeliness goal by delivering 97 percent of our products to the Congress when promised. This summary of our performance and accountability report highlights many of our contributions in fiscal year 2004 toward improving the government. I am confident that the performance data and financial information in our report and this summary are complete and reliable, as noted in GAO's statement of assurance, which appears on page 5 of the full report.

Not surprisingly, during fiscal year 2004, our work covered a number of major topics of concern to the nation and, in some cases, the world. For example, we reported on the reconstruction efforts in Afghanistan and Iraq; highlighted important concerns about pay and other support for the National Guard and Reserve forces; reported on numerous topics related to homeland security, including improving mission effectiveness at the Department of Homeland Security, curbing the use of counterfeit identity documents, and making our nation's transportation system safer from potential acts of terrorism; continued to raise concerns and propose a strategy for dealing with the nation's long-term fiscal imbalance; summarized key health care statistics and published a proposed framework for related reforms; and provided staff support to the 9/11 Commission. We also testified more than 200 times before the Congress, contributing to the public debate on a variety of topics in the international area, including Iraq-related activity, as well as on homeland security and other important domestic issues. For example, we testified on improvements needed in our overseas visa process, security weaknesses on our railways and at our ports, and issues related to the 9/11 Commission's recommendations. We also testified on health care issues such as strengthening the Medicare program and increasing the public's awareness of risks associated with Internet pharmacies. In addition, we spoke about our work examining the risks associated with private pension plans and various revenue-related issues, such as abusive tax shelters.

The American people benefited this year as federal agencies took a wide range of actions based on our analyses and rec-

ommendations, while our efforts also heightened the visibility of issues needing attention. For example, adoption of our recommendations will improve oversight of nursing home fire safety, increase security measures at chemical facilities nationwide, strengthen tools to fight terrorism, and help curb the use of abusive tax shelters and schemes. It is important for our nation and citizens not only that these issues are made visible but also that the nation's leaders address them. We feel fortunate and honored that, in the vast majority of cases, our clients and federal agencies listen to what we have to say and act on our recommendations. Furthermore, virtually all of our reports are published and available on our Web site (www.gao.gov), keeping us accountable to the American people and the world at large.

In fiscal year 2004, we also continued to take steps internally to be a model federal agency and a world-class professional services organization. These steps helped us to address our three management challenges—human capital, physical security, and information security. Through the GAO Human Capital Reform Act of 2004, the Congress granted GAO several additional human capital flexibilities that will allow us to, among other things, move to an even more performance-oriented and market-based compensation system. Our most valuable asset continues to be our people, and the flexibilities granted in this act will help us to continue to modernize our people-related policies and strategies, which, in turn, will help to ensure that we are well equipped to serve the Congress and the American people in the years to come. One other change made in the act was to change our name from the General Accounting Office to the Government Accountability Office to more accurately reflect the nature of our work. Despite this change, we remain GAO and all that it stands for—accountability, integrity, and reliability.

In summary, fiscal year 2004 was a very successful year for us. I believe that those who read this summary will agree that the taxpayers received an excellent return on their investment in GAO. For more details about our performance, please see our full report.

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

About GAO



Source: See Image Sources.

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.

The U.S. Government Accountability Office (GAO) is an independent, non-partisan, professional services agency in the legislative branch of the federal government. Commonly known as the “investigative arm of the Congress” or the “congressional watchdog,” we examine how taxpayer dollars are spent and advise lawmakers and agency heads on ways to make government work better.

We accomplish our mission by providing reliable information and informed analysis while making recommendations for improvement, when appropriate, on a wide variety of issues. The vast majority of our work is undertaken in response to congressional requests. However, as authorized by our enabling legislation, we also independently allocate a limited portion of our resources for research and development that enables us to (1) invest in issues the Congress may need to address in the future and (2) provide products of broad institutional interest to the Congress.

GAO's History

The Budget and Accounting Act of 1921 required the President to issue an annual federal budget and established GAO as an independent agency to investigate how federal dollars are spent. In the early years, we mainly audited vouchers, but after World War II we started to perform more comprehensive financial audits that examined the economy and efficiency of government operations. By the 1960s, GAO had begun to perform the type of work we are noted for today—program evaluation—which examines whether government programs are meeting their objectives. Our new name, the U.S. Government Accountability Office, effective July 7, 2004, reflects our people, our work, and our reputation.

We maintain a workforce of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. About three-quarters of our approximately 3,300 employees are based at our headquarters in Washington, D.C.; the rest are deployed in 11 field offices across the country. Almost all of our staff are organized

into 13 teams that support our three external strategic goals. Our other staff support our fourth strategic goal (an internal goal) and work in various staff offices including General Counsel and Congressional Relations.

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

- engaging in a range of oversight, insight, and foresight activities that span the full breadth and scope of federal programs, policies, operations, and performance;
- overseeing government operations through financial and other management audits to determine whether public funds are being spent efficiently and effectively;
- providing legal opinions to determine whether agencies are in compliance with applicable laws and regulations;
- investigating whether illegal or improper activities are occurring;
- analyzing the financing for government activities;

- conducting a range of constructive engagements in which we work proactively with agencies, when appropriate, to help guide their efforts toward positive results;
- studying national and international trends and challenges to anticipate their implications for public policy;
- conducting policy analyses to assess needed actions and the implications of proposed actions;
- publishing thousands of reports and other documents annually; and
- testifying before the Congress.

To ensure that we are well positioned to meet the Congress's current and future needs, we update our 6-year strategic plan every 3 years, consulting extensively during the update with our clients on Capitol Hill and with other experts (see our complete strategic plan on the Web at www.gao.gov/sp/d04534sp.pdf). Our strategic plan framework is shown on [page 7](#).

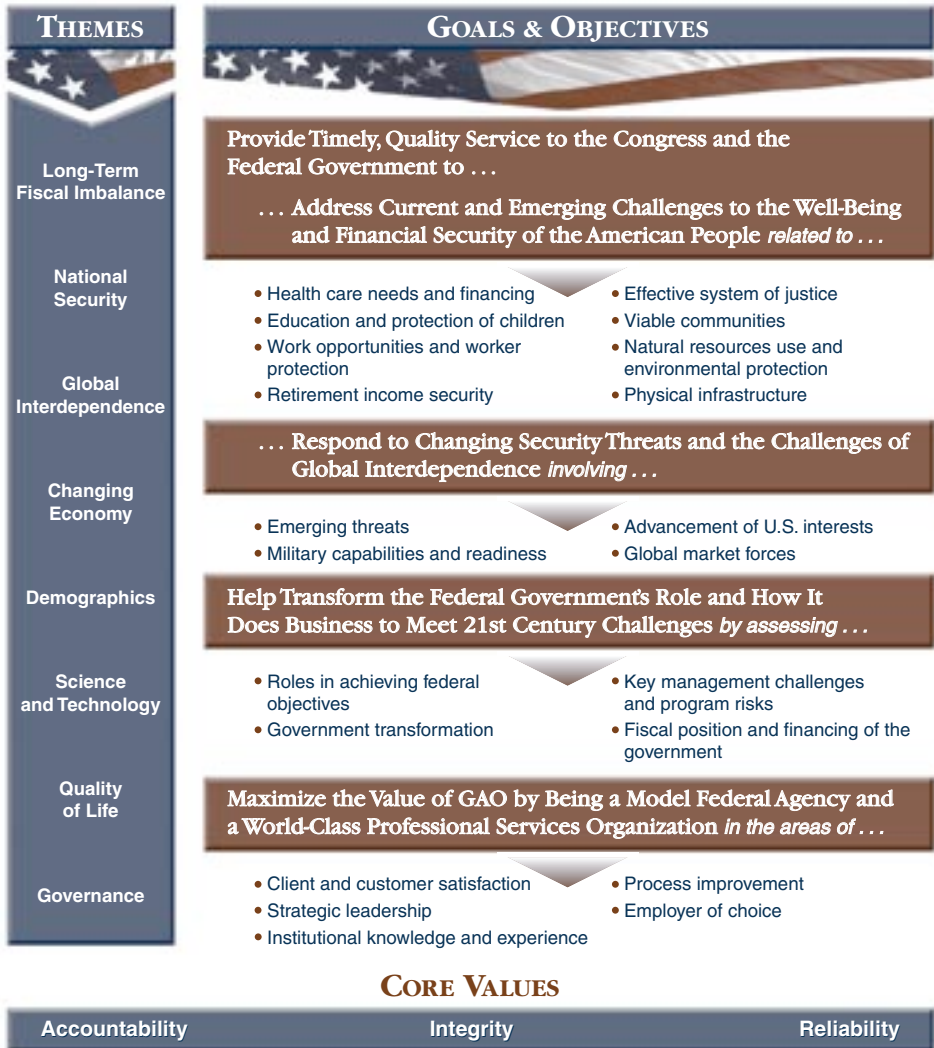
Our strategic plan is based on a hierarchy of four elements—strategic goals, strategic objectives, performance goals, and key efforts. We use the strategic plan as a blueprint to lay out the areas in which we expect to conduct research, audits, analyses, and evaluations to meet our clients' needs. This then allows us to allocate the resources we receive from the Congress accordingly. Our four strategic goals and



SERVING THE CONGRESS AND THE NATION 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.



Source: GAO.

Fiscal years 2004-2009

selected issues on which we worked in fiscal year 2004 are shown on [page 9](#).

As a legislative branch agency, we differ in some ways from executive branch agencies. We are, for instance, exempt from many laws applicable to the executive branch. However, we hold ourselves to the spirit of many of these laws, including 31 U.S.C. 3512 (commonly referred to as the Federal Managers' Financial Integrity Act), the Government Performance and Results Act of 1993, and the Federal Financial

Management Improvement Act of 1996.

The pages that follow offer highlights of our performance and accountability report for fiscal year 2004. 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 and other performance-related documents at www.gao.gov/sp.html.

GAO's Goals and Selected Issues

Goal	Description	In fiscal year 2004, GAO provided information that helped to...
1	Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.	<ul style="list-style-type: none"> ■ Protect Americans from identity theft ■ Modernize federal disability programs ■ Promote healthful eating in schools ■ Ensure that Medicare providers are paid appropriately ■ Enhance the care and safety of nursing home residents ■ Ensure that steps are taken to increase the safety of commercial aviation ■ Foster more effective federal response to wildland fires ■ Implement postal service reforms to address structural and systemic deficiencies ■ Improve the enforcement of fair housing policies ■ Improve environmental cleanup at former defense sites
2	Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.	<ul style="list-style-type: none"> ■ Oversee the reconstruction of Afghanistan and Iraq ■ Inform congressional decision making on funding for military needs ■ Improve the Missile Defense Agency's acquisition strategy ■ Improve oversight of federally supported financial institutions ■ Provide investors with better information on mutual fund expenses ■ Strengthen the tools to protect our borders and improve the government's ability to fight terrorist attacks ■ Protect against potential terrorist threats involving the smuggling of nuclear materials ■ Inform congressional decision making on the military's aging fleet of aerial refueling aircraft ■ Enhance domestic security with better data on illegal aliens ■ Analyze how U.S. interests are served through trade agreements and programs
3	Help transform the federal government's role and how it does business to meet 21st century challenges.	<ul style="list-style-type: none"> ■ Strengthen the Department of Homeland Security's information technology (IT) management ■ Strengthen management of the space program by improving the National Aeronautics and Space Administration's (NASA) cost-estimating processes ■ Transform and modernize the accountability profession ■ Reveal that the government has paid for employee degrees from diploma mills and other unaccredited schools ■ Audit the U.S. government's financial statements ■ Increase decision makers' understanding of the federal government's long-term fiscal imbalance ■ Alert the Congress to abusive tax shelters and schemes ■ Reform the military's processes for acquiring satellites and other space-related systems that provide intelligence
4	Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	<ul style="list-style-type: none"> ■ Serve as a model for other federal agencies by making effective use of enhanced human capital tools and flexibilities and using enabling technology to improve GAO's crosscutting business practices

GAO's Performance

In fiscal year 2004, much of our work examined the effectiveness of the federal government's day-to-day operations, such as administering benefits to the elderly and other needy populations, providing grants and loans to college students, and collecting taxes from businesses and individuals. Yet we remained alert to emerging problems that demanded the attention of lawmakers and the public. For example, we continued to closely monitor developments affecting the Iraq war, defense transformation, homeland security, health care, the postal service, civil service reform, and the nation's private pension system. We also informed policymakers about long-term challenges facing the nation, such as the federal government's financial outlook, new security threats in the post-Cold War world, the aging of America and its impact on our health care and retirement systems, changing economic conditions, and the increasing demands on our infrastructure—from highways to water systems. We provided congressional committees, members, and staff with information in the form of reports; recommendations; testimonies; briefings; and expert comments on bills, laws, and other legal matters affecting the federal government. We performed this work in accordance with our strategic plan, consistent with our professional standards, and guided by our core values.

To understand how well we supported the Congress in meeting its constitutional responsibilities in fiscal year 2004, we monitored our performance using seven annual performance measures that capture the results of our work and the assistance we provided to our client, the Congress (see [table 1](#)). These measures indicate that we had an exceptional year—we exceeded our performance targets for six of our seven measures. Two of our results measures—financial benefits and other benefits—illustrate the outcomes of our work and our value to the American people because they track federal dollars saved or better used and programmatic improvements implemented as a result of our work. Three additional results measures track recommendations implemented, new products with recommendations, and recommendations made that help us to achieve financial and other benefits. Our client measures—testimonies and timeliness—indicate to a great extent how well we, as an information provider, serve the Congress.

In fiscal year 2004, we exceeded or equaled our records for all of our performance measures except for the number of testimonies. Our financial benefits of \$44 billion represent a \$95 return on every dollar invested in us. In addition, we greatly exceeded two of our annual performance targets—other benefits and new recommendations made. We surpassed our target

Table 1: Agencywide Summary of Annual Measures and Targets

Performance measures	2000 actual	2001 actual	2002 actual	2003 actual	2004		Met/ not met	2005 target
					Target	Actual		
Results								
Financial benefits (dollars in billions)	\$23.2	\$26.4	\$37.7	\$35.4	\$35.0	\$44.0	Met	\$37.5
Other benefits	788	799	906	1,043	900	1,197	Met	1,000
Past recommendations implemented	78%	79%	79%	82%	79%	83%	Met	80%
New recommendations made ^a	1,224	1,563	1,950	2,175	1,500	2,790	Met	N/A
New products with recommendations	39%	44%	53%	55%	50%	63%	Met	55%
Client								
Testimonies	263	151	216	189	190	217	Met	185
Timeliness	96%	95%	96%	97%	98%	97%	Not met	98%

Source: GAO.

Note: N/A indicates target not applicable.

^aBeginning in fiscal year 2005, we will eliminate this as a performance measure and will use the percentage of new products with recommendations to show how our work results in beneficial recommendations. However, we will continue to track the number of new recommendations made to ensure that teams supporting strategic goals 1 through 3 continue to plan and complete engagements that result in recommendations.

for other benefits by about 33 percent and our target for new recommendations by 76 percent, primarily because we issued several products—governmentwide in scope—that contained numerous recommendations aimed at strengthening federal agencies' financial management and IT. These agencies subsequently implemented many of our recommendations, thus produc-

ing significant benefits in these areas. Beginning in fiscal year 2005, we will not set or report publicly a target for the number of recommendations made because we believe the measure is no longer needed. We created this measure to provide some performance information related to recommendations. Subsequently, we added a measure for the percentage of new

products with recommendations. Now that we have had several years to establish a baseline for the latter, we feel that it alone is a sufficient measure to ensure that our work results in beneficial recommendations. However, we will continue to monitor the number of new recommendations made to ensure that teams supporting strategic goals 1 through 3 continue to plan and complete engagements that result in recommendations—the basis for our financial and other benefits for the American people.

Financial and Other Benefits

We describe many of the benefits produced by our work as either financial or other (nonfinancial) benefits. Both types of benefits result from our efforts to provide information to the Congress that helped to (1) change laws and regulations, (2) improve services to the public, and (3) promote sound agency and governmentwide management. In many cases, the benefits we claimed in fiscal year 2004 are based on work we did in past years because it often takes the Congress and agencies time to implement our recommendations or to act on our findings. To claim either type of benefit, our staff must document the connection between the benefits reported and the work that we performed.

Financial benefits

Our findings and recommendations produce measurable financial benefits

for the federal government when the Congress or agencies act on them and the funds are made available to reduce government expenditures or are reallocated to other areas. The monetary effect realized can be the result of changes in

- business operations and activities;
- the structure of federal programs; or
- entitlements, taxes, or user fees.

For example, financial benefits could result if the Congress were to reduce the annual cost of operating a federal program or lessen the cost of a multi-year program or entitlement. Financial benefits could also result from increases in federal revenues—due to changes in laws, user fees, or asset sales—that our work helped to produce.

In fiscal year 2004, our work generated \$44 billion in financial benefits, primarily from recommendations we made to agencies and the Congress. Of this amount, about \$27 billion (or approximately 61 percent) resulted from changes in laws or regulations.

Financial benefits included in our performance measures are net benefits—that is, estimates of financial benefits that have been reduced by the costs associated with taking the action that we recommended.

We convert all estimates involving past and future years to their net present value and use actual dollars to represent estimates involving only the current year. Financial benefit amounts vary depending on the nature of the benefit, and we can claim financial benefits over multiple years based on a single agency or congressional action. To ensure conservative estimates of net financial benefits, reductions in operating cost are typically limited to 2 years of accrued reductions. Multiyear reductions in long-term projects, changes in tax laws, program terminations, or sales of government assets are limited to 5 years. Estimates must be based on third-party sources and reduced by any identifiable offsetting costs. The third parties are typically the agency that acted on our work, a congressional committee, or the Congressional Budget Office.

To document financial benefits, our staff complete reports documenting accomplishments that are linked to specific products or actions. All accomplishment reports for financial benefits are documented and reviewed by (1) another GAO staff member not involved in the work and (2) a senior executive in charge of the work. Also, a separate unit, our Quality and Continuous Improvement office, reviews all financial benefits and approves benefits of \$100 million or more, which amounted to 95 percent of the total dollar value of benefits recorded in fiscal year 2004. Additionally, our Office of Inspector General (IG) performs an independent review of all accomplishment reports claiming benefits of \$500 million or more.

[Figure 1](#) lists several of our major financial benefits for fiscal year 2004 and briefly describes some of our work contributing to financial benefits.

Figure 1: GAO's Selected Major Financial Benefits Reported in Fiscal Year 2004



Source: See Image Sources.

Description	Amount
<p>Eliminated Medicaid's upper payment limit loophole. We identified a weakness in Medicaid's upper payment limit methodology that allowed states to make excessive payments to local, government-owned nursing facilities and then have the facilities return the payments to the states, creating the illusion that they had made large Medicaid payments in order to generate federal matching payments. Closing the loophole prevented the federal government from making significant federal matching payments to states above those intended by Medicaid. The amount shown represents the net present value of estimated financial benefits for fiscal years 2005 and 2006—the final years for which benefits can be claimed.</p>	\$10,073
<p>Updated the Consumer Price Index (CPI). We recommended that the Bureau of Labor Statistics periodically update the expenditure weights of its market basket of goods and services used to calculate the CPI to make it more timely and representative of consumer expenditures. The bureau agreed to do this every 2 years, and the CPI for January 2002 reflected the new weights. For federal programs that use the CPI as an index for determining benefits, the adjustments have resulted in decreased federal expenditures (e.g., reduced Social Security cost-of-living adjustments) and increased federal revenues, such as reductions in the growth of personal exemptions for federal income taxes. The amount shown represents projected financial benefits for fiscal year 2007, the fifth and final year for which we will allow benefits to be claimed for this action.</p>	\$5,074
<p>Reduced costs associated with Medicare spending on home health care. We reported in 2002 that Medicare's payments for home health care episodes were, on average, about 35 percent higher than the estimated costs of home health care provided in the first 6 months of 2001. Our report helped to ensure that the Congress did not delay or eliminate a scheduled reduction in Medicare home health payments that had risen rapidly from the late 1980s through the mid-1990s.</p>	\$4,661

Description	Amount
<p>Reduced the cost of federal housing programs. We determined that the Department of Housing and Urban Development (HUD) did not have the information it needed to routinely calculate and track unexpended balances in its housing and community development programs. As a result of our work, the Congress required HUD to prepare quarterly reports on unexpended balances for each program, and HUD management committed to closely monitor these balances and identify amounts available for recapture.</p>	\$3,638
<p>Improved the use of the Iraqi Freedom Fund. We reported that the military services may not obligate all of the funds appropriated for the global war on terrorism in fiscal year 2003 as required. Thus, the Congress rescinded \$3.49 billion from the September 2003 balance remaining in the Iraqi Freedom Fund as part of the Fiscal Year 2004 Department of Defense Appropriations Act. These funds were made available for other purposes.</p>	\$3,490
<p>Reduced costs associated with preparing the Department of Defense's (DOD) financial statements. We determined that DOD's initial plans to obtain a favorable fiscal year 2004 audit opinion were not feasible or cost-effective. Therefore, instead of moving \$2.2 billion to fund the DOD components' efforts focused on a fiscal year 2004 audit opinion, the DOD Comptroller shifted \$184 million to begin auditability assessments and audits, as applicable, as part of a long-term strategy to improve DOD's fiscal accountability. The Comptroller's decision not to reprogram the funds allowed DOD to use over \$2 billion for other purposes during the fiscal year.</p>	\$2,057
<p>Modified the focus of funding for DOD's V-22 Osprey aircraft program. We highlighted for DOD officials—before full production of the aircraft was scheduled to begin—numerous risks and unknowns that existed in the V-22 Osprey program because of inadequate testing and evaluation. We reported these concerns to a blue-ribbon investigative panel established after a second fatal crash of the V-22. As a result of our work, the blue-ribbon panel recommended that DOD temporarily reduce the production of the V-22 to a minimum level to free up funds to better address the research and development issues we raised. The Congress reduced the procurement funding for purchasing V-22 aircraft from the planned 37 to 11 for each of fiscal years 2003 and 2004. This action allowed some funds to be used for development testing of the V-22 aircraft, but the remaining funds were made available for other purposes.</p>	\$1,618
<p>Eliminated unnecessary military funding from the budget. We recommended that requested fiscal year 2004 funds be eliminated for three terminated military operations involving Iraq's compliance with various United Nations resolutions, Operations Northern and Southern Watch and Operation Desert Spring. These funds were made available for other purposes.</p>	\$1,353

Description	Amount
<p>Improved DOD's contracting and acquisition practices. We developed a strategic framework—based on the best practices of leading private-sector companies—to guide DOD's services contracting reforms and recommended changes in DOD's organizational structure and approach to acquiring goods and services, such as using cross-functional teams and spend analyses to coordinate key purchases and leverage buying power for the agency. As a result of work done by us and others, the Congress cut DOD's budget in its fiscal year 2003 appropriation in anticipation of expected savings. This accomplishment amends a financial benefit we claimed in fiscal year 2002 and represents an additional benefit in fiscal year 2004—the final year for which a benefit can be claimed.</p>	<p>\$868</p>

Source: GAO.

Other Benefits

Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2004, we recorded a total of 1,197 other benefits. We documented 74 instances where information we provided to the Congress resulted in statutory or regulatory changes, 570 instances where federal agencies improved services to the public, and 553 instances where agencies

improved core business processes or governmentwide reforms were advanced. These actions spanned the full spectrum of national issues, from ensuring the safety of commercial airline passengers to identifying abusive tax shelters. In figure 2 we provide examples of some of the other benefits we claimed as accomplishments in fiscal year 2004.

Figure 2: GAO's Selected Other (Nonfinancial) Benefits Reported in Fiscal Year 2004



Source: See Image Sources.

**Vision
100-Century of
Aviation
Reauthorization
Act, Pub. L. No.
108-176**

We worked closely with the Congress to draft language that was included in this law related to curriculum and certification requirements for aviation mechanics. The language, which was based on recommendations we had made, included a requirement that the Federal Aviation Administration update and revise curriculum standards for aviation mechanics.

**Medicare
Prescription
Drug,
Improvement,
and
Modernization
Act of 2003, Pub.
L. No. 108-173**

Congress included six provisions in the law based on analyses and recommendations we made. For example, our work found that Medicare's method for establishing payment rates for drugs obtained under Medicare Part B—which covers doctors' services, outpatient hospital care, and some other nonhospital services—was flawed because it based payments on nonmarket-driven price estimates. The law addressed these issues by lowering payment rates in 2004 for drugs covered by Part B to more closely reflect acquisition costs, and by changing the method for calculating these payment rates in 2005, basing these rates on a market-driven estimate. Also, partly on the basis of our work, the Congress modified the eligibility criteria for small rural hospitals to qualify as critical access hospitals under the Medicare program. This change provides flexibility for some additional hospitals to consider conversion. Because of Medicare's payment methodology, converting to a critical access hospital may help bolster a hospital's financial condition, allowing it to continue to provide services to patients.

**Consolidated
Appropriations
Act, 2004, Pub.
L. No. 108-199**

We found that HUD could make more accurate eligibility decisions for individuals seeking housing assistance if it had access to more timely income information available from the Department of Health and Human Service's Office of Child Support Enforcement's National Directory of New Hires. We recommended that HUD match applicants and current recipients of its rental housing assistance programs with the new hires database. This law gives HUD access to information from the database that will better ensure that only eligible individuals receive housing assistance.

**National
Defense
Authorization
Act for Fiscal
Year 2004, Pub.
L. No. 108-136**

We testified that most existing federal performance appraisal systems, including a vast majority of DOD's systems, are not designed to support a meaningful performance-based personnel system, and agencies should have to demonstrate that these systems are modern, effective, and valid in order to receive any additional performance-based flexibilities. We suggested that the Congress establish a governmentwide fund whereby agencies could apply for funds to modernize their performance management systems and ensure that those systems have adequate safeguards to prevent abuse. This law established the Human Capital Performance Fund to support all executive agencies as they plan for and carry out performance-based rewards for their civilian employees.

*Other Benefits
That Helped to Improve Services
to the Public*



Source: See Image Sources.

**Helped to
Ensure the
Safety of
Shellfish**

In July 2001, we reported that the Food and Drug Administration's (FDA) oversight of states' shellfish safety programs was not risk-based and thus FDA was not using its limited resources wisely. To better ensure shellfish safety, we recommended that FDA identify risk factors for each of its program elements (growing area classification, processing and shipping, and control of harvest). FDA developed a scoring system for these factors. FDA shellfish specialists compute a total risk score of high, medium, or low that determines the frequency of the evaluation of that program element. High-risk elements were to be evaluated every year beginning in fiscal year 2003, medium-risk elements every second year beginning in fiscal year 2004, and low-risk elements every third year beginning in fiscal year 2005.

Identified the Need for Better Criteria to Determine Highly Qualified Teachers

Our report found that states did not have the information needed to determine whether teachers had met criteria to be considered highly qualified, as required by the No Child Left Behind Act. Specifically, states did not have the information they needed to develop methods to evaluate the subject area knowledge of teachers. To help states determine the number of highly qualified teachers they have and the actions they need to take to meet the requirements for highly qualified teachers by the end of the 2005-2006 school year, we recommended that the Secretary of Education provide more information to states about methods to evaluate subject area knowledge of current teachers. In January 2004, Education issued a revised version of the guidance "Improving Teacher Quality," which contains more information on how to evaluate subject area knowledge to meet the federal definition of a highly qualified teacher. Specifically, the guidance includes a new section that, among other things, defines evaluation standards and factors to consider when developing them.

Encouraged VA to Clarify the Array of Home Health Care Services Available to Veterans

We recommended that the Department of Veterans Affairs (VA) specify in policy whether three home health services—home-based primary care, homemaker/home health aide, and skilled home health care—are to be available to all enrolled veterans. In response, VA published an information letter on October 1, 2003, clarifying that according to VA policy, the three home health services are to be available for all enrolled, eligible veterans in need of such services. The information letter was distributed to all facilities through e-mail and is available on the VA Web site.

*Other Benefits
That Helped to Promote Sound Agency
and Governmentwide Management*



Source: See Image Sources.

Identified the Need for More Specific Criteria to Select for Audit Tax Returns From Large Corporations

We found that the Internal Revenue Service (IRS) is investing more in audits of large corporations and getting less in return. To improve the audits of tax returns filed by large corporations, we recommended that IRS provide more specific objective criteria and procedures to guide the selection of large corporate tax returns and classification of tax issues with high audit potential across the districts. In March 2002, IRS implemented a process for scoring returns in order to fully implement a plan to place these returns in the field for audit. IRS has begun to identify high-risk returns from corporate and partnership tax returns using the Discriminant Analysis System.

Helped to Centralize the Oversight of Major DOD Contracts

We examined various DOD initiatives under way that are intended to better manage acquisition of services, including drafting policy to provide better oversight on purchases of high-dollar value services. In response to our work, the Under Secretary of Defense for Acquisition, Technology, and Logistics and each of the military departments now have a management structure in place and a process for reviewing major (i.e., large-dollar or program-critical) service acquisitions for adherence to performance and other contracting requirements. The new policy establishes a threshold of \$500 million or more for selecting service purchases for review and approval by the military department and possibly DOD headquarters, allowing DOD to adequately plan major purchases before committing the government to major expenditures.

Helped to Reduce Fraud, Waste, and Abuse of Agencies' Purchase Cards

In a series of reports and testimonies beginning in 2001, we highlighted pervasive weaknesses in the government's \$16 billion purchase card program. Our work identified numerous cases of fraud, waste, and abuse at DOD, HUD, and the Federal Aviation Administration. These agencies have taken significant steps to implement the hundreds of recommendations we made to upgrade their controls. Major improvement areas include enhanced controls over card issuance and cancellation, reduced span of control for approving officials, increased human capital resources and training, new performance measures and goals, required advance approval of purchases, and independent receiving and acceptance of goods and services. These efforts will substantially reduce the government's vulnerability to fraud, waste, and abuse in agencies' purchase card programs.

Source: GAO.

Our remaining five performance measures track actions that often lead to the achievement of financial and other benefits for the American people or that support the Congress in various ways.

- One way we measure our effect on improving the government's accountability, operations, and services is by tracking the percentage of recommendations that we made 4 years ago that have since been implemented. At the end of fiscal year 2004, 83 percent of the recommendations we made in fiscal year 2000 had been implemented, primarily by executive branch agencies. Putting these recommendations into practice will generate tangible benefits for the American people now and in the years ahead.
- We made 2,790 new recommendations in fiscal year 2004, which exceeded our target. Though not all of the products we issued included recommendations, developing useful and material recommendations is an important part of our work for the Congress because it helps to improve how the government functions and often leads to financial and other benefits for the public. This year 436 written products we issued (excluding testimonies) yielded the 2,790 recommendations reported.
- During fiscal year 2004, experts from our staff testified at 217 congressional hearings covering a wide range of complex issues. For example, our senior executives testified on the financial condition of the Pension Benefit Guaranty Corporation's single-employer program, the effects of various proposals to reform Social Security's benefit distributions, and enhancing federal accountability through inspectors general. See [page 23](#) for a summary by strategic goal of issues we testified on in fiscal year 2004.
- We track the percentage of our products that are delivered on or before the day we agreed to with our clients because it is critical that our work be done on time for it to be used by policymakers. While the vast majority of our products—97 percent—were completed on time for our clients in fiscal year 2004, we slightly missed our target of providing 98 percent of them on the promised day. We are taking steps to improve our performance in the future by encouraging matrix management practices among the teams supporting various strategic goals and identifying early those teams that need additional resources to ensure the timely delivery of their products to the Congress.

On the pages that follow our selected list of testimonies, we highlight our performance under each of our strategic goals, discuss our high-risk pro-

grams, and describe the strategies and challenges involved in achieving those goals—including the management challenges and external factors we face.



SELECTED ISSUES ON WHICH GAO TESTIFIED DURING FISCAL YEAR 2004

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

- Student loan programs
- Child welfare
- Pension plan insurance programs
- Energy Employees' Occupational Illness Compensation Program
- Social Security reform's effect on benefits and taxes
- Medicare spending
- Intergovernmental Medicaid transfers
- Private health insurance
- Defense and veterans' health care
- U.S. gasoline markets
- Farm program payments
- Security challenges at chemical facilities
- Oil and gas activities on federal lands
- Postal Service transformation
- Rail security
- Federal real property
- Federal aviation management and modernization
- Pipeline safety
- Telecommunications

GOAL 2: Changing Security Threats and Challenges of Globalization

- Gulf War illnesses
- International broadcasting
- Border security
- Terrorist financing
- United Nations Oil-for-Food program
- Oversight of government-sponsored enterprises
- Securities and Exchange Commission operations
- Mutual funds
- Use of Reserve forces
- Destruction of chemical weapons
- Mail delivery to deployed troops
- Defense personnel clearances
- Unmanned aerial vehicles
- Military base closures
- Support for Iraq operations
- Challenges in inspecting oceangoing cargo containers
- Homeland security advisory system
- Security at nuclear facilities
- Counterfeit identities
- Information security
- Critical infrastructure protection
- International defense sales
- U.S. Army combat systems
- Military aircraft
- Defense's space systems
- National strategy for homeland security

GOAL 3: Transforming the Federal Government's Role

- Army Reserve and Army National Guard pay
- Defense contractor tax system abuses
- Fraudulent diplomas
- Illicit Internet pharmacies
- Information technology management
- Information technology continuity of operations
- Electronic government
- Border and transportation security
- Electronic voting
- Abusive tax shelters
- Diversity among senior federal executives
- Transformation of the federal government
- Long-term federal budget issues
- Office of Management and Budget's Program Assessment Rating Tool
- The impact of the Government Performance and Results Act
- District of Columbia government
- Federal financial management and fiscal challenges
- Federal purchase and travel cards
- Excess Defense property
- Space shuttle program
- Defense contract management

Goal 1 Results

Provide Timely, Quality Service to the Congress and the Federal Government to Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People



Source: See Image Sources.

Financial Benefits: \$26.6 Billion (Target: \$23.3 Billion)

- **Work in five areas produced majority of financial benefits:** Work on the Consumer Price Index, Medicare program, HUD's budget request for fiscal year 2001, DOD programs, and Medicaid led to 90 percent of the financial benefits contributed by goal 1. For example, financial benefits valued at \$10.1 billion arose from the implementation of our recommendation to close a loophole to prevent the federal government from making matching payments to states above those intended by Medicaid.

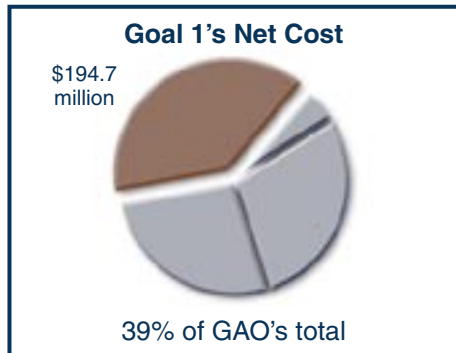
Other Benefits: 252 (Target: 215 Other Benefits)

- **Outreaching to low-income Medicare beneficiaries:** Our analysis helped the Congress include an outreach requirement in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 to notify low-income beneficiaries of the availability of new subsidies to assist with drug costs.
- **Improving the administration of the food stamp program:** Our work led to changes in two food stamp program options that will help ease the reporting burden for almost all participating households, help families transition from welfare to work, and may lower food stamp error rates.
- **Ensuring the safety of underground storage tanks:** Our work on underground storage tanks, including those at gasoline stations, led to agency actions and proposed legislation to shore up systemic weaknesses and reduce the risk that these tanks will leak and cause significant environmental and health risks.

New Recommendations: 614 (Target: 328 Recommendations)

Significant recommendations were made in the areas of:

- Airliner cabin air quality,
- Decommissioning nuclear power plants,
- Improved coordination on managing endangered species,
- Federal funding of public television,
- The Department of Justice's efforts to track alleged voting irregularities, and
- Improving the accuracy of responses to policy-oriented inquiries from Medicare providers.



Source: GAO.

Goal 2 Results

Provide Timely, Quality Service to the Congress and the Federal Government to Respond to Changing Security Threats and the Challenges of Global Interdependence



Source: See Image Sources.

Financial Benefits: \$9.7 Billion (Target: \$7.0 Billion)

- **Work examining DOD produced majority of financial benefits:** Engagements that improved funding of DOD's activities or reduced costs associated with DOD's operations led to 66 percent of the financial benefits contributed by goal 2. For example, a financial benefit of about \$1.35 billion stemmed from our findings that DOD no longer needed funds for an operation that had ended after the budget request was submitted to the Congress, but before the funds had been appropriated.

Other Benefits: 369 (Target: 244 Other Benefits)

- **Improving the tracking of in-transit munitions shipments:** As a result of our recommendations, DOD has initiated corrective actions and revised operating procedures that should provide the level of in-transit visibility required for munitions shipments and decrease their vulnerability to compromise.
- **Improving Trade Advisory Committee operations:** Our recommendations that members of the Trade Advisory Committee take steps to quickly fill gaps on the committee led the U.S. Department of Agriculture (USDA)—one member agency—to identify gaps in coverage that it then worked to fill, and several member agencies revised their processes to grant interim security clearances to committees advisers, if necessary, so that they could assist the committee while awaiting full clearance.
- **Clarifying guidance on promoting tobacco:** In response to our report that USDA's Foreign Agricultural Service had not issued guidance implementing tobacco-related restrictions since 1994, USDA reviewed all of its ongoing activities, revised its reporting guidelines, and instructed overseas offices not to comment on tobacco product and price matters and to ensure that reported material is consistent with legislated restrictions.

New Recommendations: 708 (Target: 602 Recommendations)

Significant recommendations were made in the areas of:

- Continuity-of-operations plans for ensuring the delivery of essential government services,
- Preventing foreign countries from obtaining classified spare parts or unclassified items containing military technology, and
- U.S. assistance to Afghanistan.



Source: GAO.

Goal 3 Results

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges



Source: See Image Sources.

Financial Benefits: \$7.6 Billion (Target: \$4.7 Billion)

- **Work on core government processes and reforms produced majority of financial benefits:** Engagements that examined DOD's efforts to improve financial management, information technology, and acquisition reform produced 68 percent of the financial benefits contributed by goal 3.

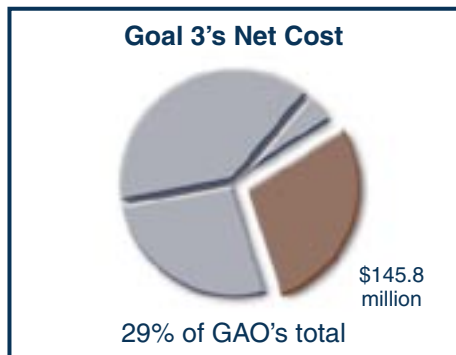
Other Benefits: 576 (Target: 441 Other Benefits)

- **Addressing shortfalls in foreign language capability:** Our work led the Department of State to adopt a results-oriented approach to human capital management for foreign language speakers.
- **Influencing federal acquisition rules:** In response to our work, the Federal Acquisition Regulation Council adopted new rules that increase competitive quote requirements when agencies buy schedule services and require proper justification and higher-level approval of sole-source orders.
- **Addressing the National Aeronautics and Space Administration's (NASA) workforce challenges:** Our concerns about workforce issues facing NASA led to enactment of the NASA Flexibility Act of 2003 (Pub. L. No. 108-201), which gives NASA more flexibility to recruit and retain a highly skilled workforce.

New Recommendations: 1,468 (Target: 570 Recommendations)

Significant recommendations were made in the areas of:

- Controlling the costs of the 2010 census,
- Improving controls over DOD's travel cards to decrease losses related to unused airline tickets, and
- Reducing vulnerability to improper, wasteful, and questionable government card purchases.



Source: GAO.

Goal 4 Results

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization



Source: See Image Sources.

Continuously improve client and customer satisfaction and stakeholder relationships

- Strengthened communication with our congressional clients by refining and issuing protocols that govern our work for the Congress and reflect congressional feedback.
- Measured congressional satisfaction with our work by administering a client feedback survey to the staff of all congressional committees and members that requested work resulting in a product.

Lead strategically to achieve enhanced results

- Published GAO's human capital strategic plan for fiscal years 2004-2006 that includes key efforts, expectations, measures, and initiatives for improving our human resources.
- Implemented provisions of the Human Capital Reform Act of 2004 that, among other things, give us permanent authority to offer voluntary early retirement opportunities and allow us to create an executive exchange program with the private sector.

Leverage GAO's institutional knowledge and experience

- Convened a number of forums, symposia, and other meetings to provide opportunities for an exchange of knowledge between accountability and professional organizations.
- Redesigned our Web site to enhance usability and facilitate access to our information products and services.

Continuously enhance GAO's business and management processes

- Implemented numerous initiatives that resulted in more efficient and cost effective processes, such as our Web-based travel and time and attendance systems.
- Launched a Web-based customer satisfaction survey to get feedback internally on product production and other services provided by goal 4.

Become a professional services employer of choice

- Continued to upgrade IT tools and capabilities.
- Implemented on-line access 24 hours a day to more than 900 training courses.
- Launched a telework program that allows staff to work from home when feasible.



Source: GAO.

GAO's High-Risk Program

In tandem with our reviews of federal programs that the Congress mandates or requests us to perform, we also focus resources on selected federal programs and certain broad areas of the federal government that are more vulnerable to waste, fraud, abuse, and mismanagement than other programs or have major transformation challenges associated with their economy, efficiency, or effectiveness. Since 1993, we have identified these high-risk programs in our high-risk updates issued to coincide with the start of each new Congress. This work is very important because it further helps to improve the performance and accountability of the federal government.

Our high-risk updates list government programs and operations in need of special attention or transformation to ensure that the federal government operates in the most economical, efficient, and effective manner possible. Our latest report, released in January 2003, spotlights more than 20 troubled areas across government. Many of these areas involve essential government services, such as Medicare, housing programs, and postal service operations, that directly affect the well-being of the American people.

In fiscal year 2004, we issued 218 reports and delivered 96 testimonies related to our high-risk areas and programs, and our work involving these areas resulted in financial benefits

totaling over \$20 billion. This work included, for example, 13 reports and 10 testimonies examining problems with DOD's financial management practices, such as weak internal controls over travel cards, inadequate management of payments to the Navy's telecommunications vendors, and abuses of the federal tax system by DOD contractors, resulting in \$2.7 billion in financial benefits. In addition, we documented \$700 million in financial benefits based on previous work related to modernizing federal disability programs and produced 7 reports and 4 testimonies focusing on, for example, improving Social Security Administration and Department of Energy processes that result in inconsistent disability decisions and inconsistent benefit outcomes.

Over the years, agencies have made strong efforts to address the deficiencies cited in our high-risk reports, and some programs have improved enough to be removed from the list (e.g., farm loan programs). We have also identified other areas of high risk, including challenges faced by government programs and operations in need of broad-based transformations, such as strategic human capital management.

We plan to issue our next high-risk update early in 2005. To learn more about our work on the high-risk areas or to download the January 2003 update in full, go to www.gao.gov/pas/2003/.

Strategies and Challenges

The Government Performance and Results Act directs agencies to articulate not just goals, but also strategies for achieving those goals. As detailed in the following sections, our strategies primarily emphasize conducting audits, evaluations, analyses, research, and investigations and providing the information from that work to the Congress and the public in a variety of forms. Our strategies also emphasize the importance of two overarching approaches: (1) working with other organizations on crosscutting issues and (2) effectively addressing the challenges to achieving our agency's goals—that is, those internal and external factors that could impair our performance.

Strategies for Achieving Our Goals and Coordinating with Others

As the audit, evaluation, and investigative arm of the Congress, we have a unique role to play. Within the legislative branch, we are the only agency with staff in the field, conducting performance analyses and financial audits, among other congressionally requested activities, and reporting our findings not only to our congressional clients but also to the American public. While we work with the inspectors general at every federal agency, our engagements typically differ from theirs in that ours are often more strategic, complex, crosscutting (governmentwide or multi-agency in scope), longer-range in

nature, and initiated by requests from the Congress.

Achieving our strategic goals and objectives requires coordinating with other organizations with similar or complementary missions. We use advisory panels and other bodies to inform our strategic and annual work planning. Additionally, we initiate and support collaborative national and international audit, technical assistance, and other knowledge-sharing efforts.

Strategic and Annual Work Planning Through a series of forums, advisory boards, and panels; periodic environmental scans; and our speakers' series, we gather information and perspectives for our strategic and annual performance planning efforts. In fiscal year 2004, the Comptroller General convened various experts from the public, private, and nonprofit sectors in a series of forums and panels intended to enhance our understanding of emerging issues and to identify opportunities for action. For example:

- In November 2003, we hosted a forum entitled High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment and issued a report summarizing the discussion in February 2004.

- In January 2004, we held a forum on health care entitled *Unsustainable Trends Necessitate Comprehensive and Fundamental Reforms to Control Spending and Improve Value* and summarized in a May 2004 report the results of this discussion.
- In April 2004, we convened a forum on human capital and civil service reform. (We issued a report on this forum in November 2004.) Additionally, we conducted a forum entitled *Workforce Challenges and Opportunities for the 21st Century: Changing Labor Force Dynamics and the Role of Government Policies* and in June 2004 we issued highlights of the forum.
- In July 2004, we convened a forum on financial literacy. (We issued a report on this forum in November 2004.)
- Throughout 2004, we held six sessions of our speakers' series *Conversations on 21st Century Challenges*, wherein prominent leaders discuss emerging themes and their implications for public policy.

Advisory boards and panels also support our strategic and annual work planning by alerting us to issues, trends, and lessons learned across the national and international audit community that we should factor into our own work. These groups include the Comptroller General's Advisory Board,

whose 40 members from the public and private sectors have broad expertise in areas related to our strategic objectives. The board meets with our leadership annually to share its views on our strategic direction and specific initiatives. Through the National Intergovernmental Audit Forum, chaired by the Comptroller General, and 10 regional intergovernmental audit forums, we consult regularly with federal inspectors general and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate.

We also work with a number of issue-specific and technical panels to improve our strategic and annual work planning. For example, the Advisory Council on Government Auditing Standards provides us guidance on promulgating auditing standards. These standards articulate auditors' responsibilities when examining government organizations, programs, activities, or functions and government assistance received by contractors, nonprofits, and other nongovernment organizations. The Accountability Advisory Council, made up of experts in the financial management community, advises us on audits of the U.S. government's consolidated financial statements and emerging issues involving financial management and accountabil-

ity reporting. Also, the Executive Council on Information Management and Technology, whose 19 members are experts from the public and private sectors and representatives of related professional organizations, help us to identify high-risk and emerging issues in the IT arena. Finally, the Comptroller General's Educators' Advisory Panel, composed of deans, professors, and other academics from prominent universities across the United States, advises us on recruiting, retaining, and developing staff and strategic planning matters.

Collaborating with Others

By collaborating with numerous organizations and individuals, we have strengthened professional standards, provided technical assistance, leveraged resources, and developed best practices. Internationally, we participate in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of the national audit offices of 184 countries. During 2004, we led a 10-nation task force that developed a 5-year strategic plan—the first in INTOSAI's 50-year history. The plan was unanimously endorsed by INTOSAI's Governing Board and unanimously adopted by the INTOSAI Congress this fall. It provides a blueprint for a major transformation of INTOSAI and a structure and rationale that will facilitate member institutions' strategic engagement in INTOSAI in a way that maximizes contributions while minimizing

resources. We also publish INTOSAI's quarterly *International Journal of Government Auditing* in five languages to further the global understanding of standards, best practices, and technical issues.

Other collaborative activities undertaken by our staff during 2004 included the following:

- Conferring with the Private Sector Council, a nonprofit, nonpartisan, public service organization committed to helping the federal government improve its efficiency, management, and productivity through the cooperative sharing of knowledge.
- Assisting the Environmental Protection Agency's IG and the Domestic Working Group on their collaborative review of information used by water utilities to conduct vulnerability assessments by identifying appropriate state and local participants' contacts.
- Actively participating in four other Domestic Working Group collaborative efforts of federal, state, and local audit officials to address issues regarding access to records, grants management, long-term fiscal challenges, and governance.
- Leading the effort to develop the National Intergovernmental Audit Forum's first-ever strategic plan, which will help maximize the

organization's effectiveness in promoting good government and accountability at all levels of government.

Addressing Management Challenges That Could Affect Our Performance

At GAO, management challenges are identified by the Comptroller General and the agency's senior executives through the agency's strategic planning, management, and budgeting processes. Our progress in addressing the challenges is monitored through our annual performance and accountability process. Under our strategic goal 4, we establish performance goals focused on each of our management challenges; track quarterly our progress in completing the key efforts for those performance goals; and, at the end of the timeframe set for the performance goals, report on whether the performance goals have been met or not met. We have also asked our IG to examine management's assessment of the challenges and the agency's progress in addressing them, and our IG's assessment can be found on [page 52](#).

In fiscal year 2004, we had three major management challenges—human capital, physical security, and information security. We have reported in the past on our efforts to address these challenges. Although we have made

progress with these challenges, we still have work to do.

The Human Capital Challenge

Given our role as a key provider of professional and objective 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 policies and management practices, we could run the risk of being unable to meet the expectations of the Congress and the American people.

During fiscal year 2004, we continued to make significant improvements in our human capital management. We began to implement the newly enacted GAO Human Capital Reform Act of 2004, signed into law on July 7, 2004, that provides us a number of human capital tools and flexibilities that better position the agency to serve the Congress such as decoupling us from the across-the-board pay adjustment system applicable to much of the executive branch; amending pay retention rules for employees affected by a workforce restructuring, reclassification, or other action; creating an executive exchange program with the private sector; and making permanent our early retirement and buy-out authorities. We also completed our first separate strategic plan for human capital (*GAO: Human Capital Strategic*

Plan, Fiscal Years 2004-2006). The purpose of the plan is to communicate both internally and externally our strategy for becoming a model professional services organization, including how we plan to attract, retain, motivate, and reward a high-performing and top-quality workforce. Published in September 2004, the plan is posted on our Web site.

In addition, we built on our fiscal year 2003 accomplishments in attracting and retaining a diverse workforce with the knowledge, skills, and abilities to meet the new century's challenges. Among other things, in fiscal year 2004 we expanded the use of the Academic Achievement Program to hire college graduates with records of superior academic achievement; increased the number of internships; and used direct-hire, short-term, and time-limited appointing authorities like the Visiting Fellows Program to fill gaps identified during our workforce planning effort. Our intern program focuses on attracting student interns with the skill sets needed for our analyst positions, since many of our interns are hired as entry-level employees upon successful completion of their internships. To promote the retention of staff with critical skills and 1 to 3 years of GAO experience, we offered student loan repayments for the third year in a row in exchange for commitments to federal service. In accordance with Office of Personnel Management regulations,

we disbursed repayments of between \$5,000 and \$6,000 (or the full amount of the loan if the individual's balance was less than \$5,000) directly to lending institutions during fiscal year 2004 for 236 employees, each of whom signed a 3-year agreement to continue working at GAO.

We made some significant changes to GAO's performance management systems. A new competency-based appraisal system for our administrative and professional support staff was instituted. This new system establishes a clear link between employee performance and GAO's mission, core values, and strategic objectives. We converted all administrative and professional support staff to a broadband pay system and began the first year of performance-based pay, removing these GAO staff from the General Schedule.

In addition, on the basis of feedback from our managers and staff, we implemented a number of improvements to the analysts' competency-based performance management system. For example, we shortened the processing time for appraisals, pay, and promotion decisions; eliminated some of the narrative requirements to make the process less burdensome; and developed a plan to replace pay categories with individualized pay decisions.

Finally, to ensure that our staff have the knowledge and expertise to meet our goals and objectives, we developed 14 new courses as part of our competency-driven curriculum and initiated a leadership development program to address the needs of new supervisors. We also provided our staff “just-in-time” access to learning through over 900 courses and almost 60 skill simulations available online and accessible from GAO or home at any time of day.

The Physical Security Challenge

In the aftermath of the September 11 terrorist attacks, subsequent anthrax incidents, and Operation Enduring Freedom and Afghanistan operations, our ability to provide a safe and secure workplace was challenged. Protecting our people and our assets is critical to our ability to carry out our mission. We devoted additional resources to this area and implemented measures, such as upgrading the headquarters fire alarm system and installing a parallel emergency notification system. We also designed several security enhancements that are currently under way, such as the installation of a barrier and bollards around the perimeter of the headquarters building. The remaining upgrades, which include vehicle restraints at the guard ramps, ballistic-rated security guard booths, vehicle surveillance equipment at the garage entrances, and state-of-the-art electronic security, will be installed during fiscal year 2005. In fiscal year 2004, we

updated our Shelter in Place plan for headquarters and our Emergency Response Handbook for staff and prepared and distributed Shelter in Place plans for the field offices. We continue to hold annual security fair seminars to disseminate information on security and emergency preparedness at the workplace and at home. During fiscal year 2004, we developed a continuity-of-operations plan that we plan to issue during fiscal year 2005. As part of our plan to ensure our continuity of operations should we have to vacate our headquarters because of an emergency, we identified an alternative facility to house our continuity-of-operations team.

The Information Security Challenge

Protecting our information assets and ensuring information systems security and disaster recovery that allow for continuity of operations is a critical requirement for us. The risk is that in an emergency, our information could be compromised and we would be unable to respond to the needs of the Congress. In light of this risk, and in keeping with our goal of being a model federal agency, we have a wide range of initiatives under way to strengthen and protect the security of our information systems and data, including our financial systems. We have undertaken several projects that have significantly improved our information security program during fiscal year 2004. For example, we completed the revision of the IT Security Policy

Order. We added a second external firewall to the GAO architecture. The additional layer of security provided by this firewall enhances our ability to identify and stop potential hackers and improve the service to our customers. To better secure our computing assets within GAO, we are completing the implementation of internal firewalls to the core switches and each field office. We also instituted a process to scan the computer system for vulnerabilities and potential exploitation. We established a Security Operations Center responsible for the daily monitoring of security devices within our IT infrastructure. Daily reports identify potential threats to GAO that require investigation to ensure our environment is uncompromised. In addition, we are continually refining our disaster recovery procedures and have conducted some limited testing exercises during fiscal year 2004 to ensure the viability of our contingency plan. We have strategically positioned critical backup services at a remote location and have implemented a contingency Web-based portal to establish essential remote telecommunications links for GAO's client-server-based systems. As we refine our contingency processes and improve our services, we will be implementing additional technologies that mirror our current daily IT services during fiscal year 2005. More detailed information on our information security efforts is in Part IV of our full 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 agencies to make the improvements we recommend are additional factors that could affect the achievement of our goals. As the Congress focuses on unpredictable events—such as the global threat posed by sophisticated terrorist networks, international financial crises, or natural disasters—the mix of work we are asked to undertake may change, diverting our resources from some strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways:

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

- We maintain broad-based staff expertise so that we can readily address emerging needs.
- We perform self-initiated research on a limited number of selected topics.

Another external factor is the extent to which we can obtain access to certain types of information. With concerns about operational security being unusually high at home and abroad, we may have more difficulty obtaining information and reporting on sensitive issues. Historically, our auditing and information gathering has been limited whenever the intelligence community is involved. Nor have we had the

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

Managing Our Resources

Resources Used to Achieve Our Fiscal Year 2004 Performance Goals

Our financial statements for fiscal year 2004 received an unqualified opinion from an independent auditor. The auditor found our internal controls to be effective, which means that no material weaknesses were identified, and the auditor reported substantial compliance with the requirements for financial systems in the Federal Financial Management Improvement Act of 1996. The auditor also found no instances of noncompliance with the laws or regulations in the areas tested.

Compared with the statements of large and complex agencies in the executive branch, our statements present a relatively simple picture of a small yet important agency in the legislative branch. We focus most of our financial activity on the execution of our congressionally approved budget with most of our resources devoted to the human capital needed for our mission of supporting the Congress with professional, objective, fact-based, non-partisan, and nonideological information and analysis. [Table 2](#) summarizes key data from the financial statements.

Our budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. For

fiscal year 2004, our total budgetary resources increased by \$13.2 million from fiscal year 2003. This increase consists primarily of funds needed to cover mandatory and uncontrollable costs.

Our total assets were \$118.2 million, consisting mostly of property and equipment (including the headquarters building, land and improvements, and computer equipment and software) and funds with the U.S. Treasury. The largest dollar change in our assets was in property and equipment, which decreased in fiscal year 2004 as a result of normal depreciation amounts being greater than asset purchases. Total liabilities of \$84.7 million were composed largely of employees' accrued annual leave, amounts owed to other government agencies, accounts payable, and employees' salaries and benefits. The greatest changes in the liabilities were an increase in salaries and benefits and a decrease in capital lease liability. The increase in salaries and benefits liability is a result of 2 additional days of payroll accrual. There were 9 days of accrued payroll for fiscal year 2004 versus 7 days accrued at the end of fiscal year 2003. The decrease in capital lease liability is a result of making final lease payments for a substantial number of agency laptop computers during fiscal year 2004 that continue to be used in fiscal year 2005.

Table 2: GAO's Financial Highlights: Resource Information (dollars in millions)

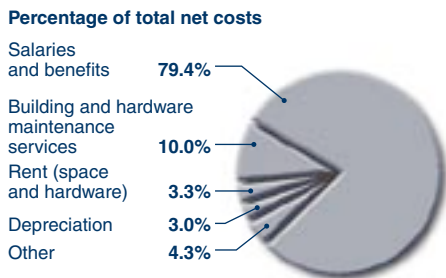
	Fiscal year 2003	Fiscal year 2004
Total budgetary resources ^a	\$474.3	\$487.5
Total outlays ^a	\$451.3	\$469.0
Net cost of operations		
Goal 1: well-being and financial security of the American people	\$186.4	\$194.7
Goal 2: changing security threats and challenges of globalization	122.0	131.7
Goal 3: transforming the federal government's role	144.9	145.8
Goal 4: maximizing the value of GAO	20.0	23.4
Less reimbursable services not attributable to goals	(2.2)	(5.5)
Total net cost of operations ^a	\$471.1	\$490.1
Actual full-time equivalents	3,269	3,224

Source: GAO.

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

The net cost of operating GAO during fiscal year 2004 and fiscal year 2003 was approximately \$490 million and \$471 million, respectively. Expenses for salaries and related benefits accounted for 79 percent of our net cost of operations in both fiscal years. Figure 3 shows how our fiscal year 2004 costs break down by category.

Figure 3: Use of Funds by Category

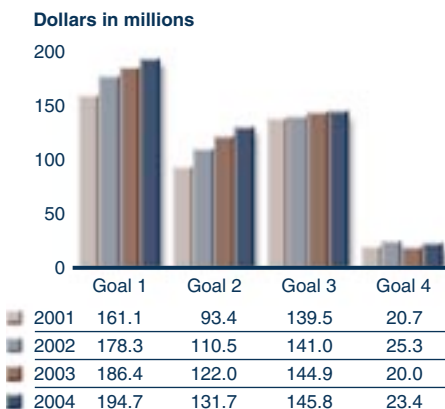


Source: GAO.

We report net cost of operations according to our four strategic goals, consistent with our strategic plan. Goal 2 accounted for the greatest dollar increase in our net cost of operations between fiscal year 2003 and fiscal year 2004. The increase is due to a redistribution of resources from goals 1 and 3 for homeland security efforts. The increase in goal 4 is primarily related to our efforts to enhance IT systems security and enterprise architecture.

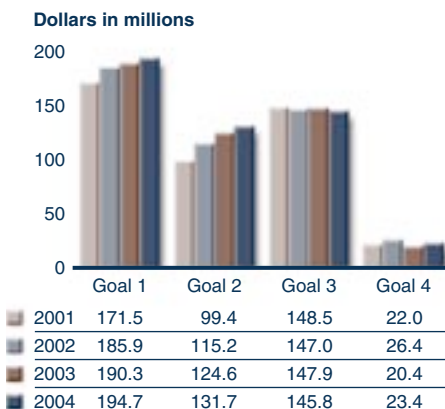
Figures 4 and 5 show our net costs by goal for fiscal year 2001 through fiscal year 2004. Figure 4 shows costs unadjusted for inflation, while figure 5 shows the same costs in 2004 dollars, that is, adjusted for inflation. As these figures indicate, our first goal, under which we organize our work on challenges to the well-being and financial security of the American people, accounted for the largest share of the costs. We expect this goal to continue to represent the largest share of costs.

Figure 4: Net Cost by Goal, Unadjusted for Inflation



Source: GAO.

Figure 5: Net Cost by Goal, Adjusted for Inflation



Source: GAO.

Audit Advisory Committee

Assisting the Comptroller General in overseeing the effectiveness of GAO's financial operations is a three-member external Audit Advisory Committee. Current members of the committee are

- Sheldon S. Cohen (Chairman), a certified public accountant and practicing attorney in Washington, D.C., a former Commissioner and Chief Counsel of the Internal Revenue Service, and a Senior Fellow of the National Academy of Public Administration.
- Edward J. Mazur, CPA, member of the Governmental Accounting Standards Board, former State Comptroller of Virginia, and a former Controller of the Office of Federal Financial Management in the Office of Management and Budget (OMB).
- Charles O. Rossotti, senior advisor at The Carlyle Group, former Commissioner of the Internal Revenue Service, and founder and former Chief Executive Officer and Chairman of American Management Systems, Inc., an international business and information technology consulting firm.

Planned Resources to Achieve Our Fiscal Year 2005 Performance Goals

Since we went to press with our full performance and accountability report for fiscal year 2004, the Congress has

completed action on our fiscal year 2005 budget. In early December 2004, the President signed into law an omnibus appropriations bill combining non-defense activities, including funding for GAO. The Congress has approved funding of \$475 million, a 2.4 percent increase for us.

In addition to salaries and expenses, we intend to invest resources in addressing our key management challenges: human capital and information and physical security. For example, on the human capital front, to ensure our ability to attract and retain high-quality staff, we plan to continue staff recruitment, succession planning, retention, and recognition programs. We also plan to continue efforts to update our training curriculum to strengthen performance in the competencies contained in our revised performance management systems, address organizational and technical needs, and maximize staff productivity and effectiveness. In addition, we will continue efforts to implement new human capital authorities included in legislation recently enacted by the Congress, including putting in place a more market-oriented and performance-based compensation system.

On the information security front, we plan to continue initiatives to ensure a secure environment, detect intruders in our systems, and recover in the event of a disaster. We are also continuing to

make the investments necessary to enhance the safety and security of our staff, facilities, and other assets for the mutual benefit of GAO and the Congress. In addition, we plan to continue initiatives designed to further increase

employees' productivity, facilitate knowledge sharing, and maximize the use of technology through tools available at the desktop and by reengineering the systems that support our business processes.



From the *Chief
Financial
Officer*

Source: GAO.

January 2005

I am pleased to report that in fiscal year 2004 the U.S. Government Accountability Office continued to set the standard for excellence in government financial management. For the 18th consecutive year, independent auditors gave GAO's financial statements an unqualified opinion with no material weaknesses and no major compliance problems. In accordance with the Office of Management and Budget's new accelerated reporting schedule, our audited financial statements were completed and made publicly available 45 days after the end of the fiscal year. In addition, for the third year in a row, the Association of Government Accountants awarded GAO a certificate of excellence for its fiscal year 2003 annual performance and accountability report.

We worked hard to reach our goal of becoming a model federal agency and a world-class professional services organization. We sought legislation that would provide us with significant new personnel flexibilities to help us to continue to recruit, retain, and reward top talent. This bill, which the President signed into law in July, decouples GAO from the general across-the-board pay adjustment system applicable to much of the executive branch and gives greater weight to individual employee performance in pay decisions.

We also used new technology to improve the efficiency and the effectiveness of GAO's support services. All GAO employees now use a Web-based time and attendance system, which has greatly improved the efficiency of our payroll cost allocation processes. Employees also now have access 24 hours a day to more than 900 online training classes that cover the

range of competencies staff at various levels are expected to demonstrate, such as project planning, team building, report writing, data analysis, computer skills, supervision, and management. We also initiated the conversion of thousands of paper personnel files to an electronic format that can be stored off-site and retrieved easily in the event of a natural disaster.

We redesigned the agency's Web site to give it a clean, modern look and updated its document search capabilities. We have reached an impressive 1 million hits per week on the Web site, and electronic subscriptions to GAO reports and other products now exceed 100,000. To better meet the needs and expectations of GAO employees, we developed and deployed our first-ever customer satisfaction survey on key internal services. We incorporated the survey results into a scorecard that allows us to track progress on several areas needing improvement. In fiscal year 2005 we plan to report on the effectiveness of our improvement efforts as a result of our second customer satisfaction survey, which was administered in November 2004. Also, we will continue to investigate new approaches to doing our work that will help us to save time and money while delivering the same outstanding results GAO is known for.



Sallyanne Harper
Chief Financial Officer

Financial Management Accountability

Our condensed financial statements begin on [page 47](#). Our financial statements for the fiscal years ended September 30, 2004 and 2003, were audited by an independent auditor, Cotton & Co., LLP. (See Part III of our fiscal year 2004 performance and accountability report for our complete financial statements and accompanying notes at www.gao.gov/sp.html.)

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

Financial Systems and Internal Controls

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

advice and evaluation from both internal and external sources.

We are committed to fulfilling the internal control objectives of 31 U.S.C. 3512, commonly referred to as the Federal Managers' Financial Integrity Act (Integrity Act). Although we are not subject to the act, we comply voluntarily with its requirements.

Our management assesses compliance with these controls through a series of comprehensive internal reviews, applying the evaluation criteria in OMB's guidance for implementing the Integrity Act. The results of these reviews are discussed with our Audit Advisory Committee, and action is taken to correct deficiencies as they are identified.

We assessed our internal controls as of September 30, 2004, based on the criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, we believe that as of September 30, 2004, we have effective internal controls in place. Additionally, our independent auditor found that we maintained effective internal controls over financial reporting and compliance with laws and regulations. Consistent with our evaluation, the auditor found no material internal control weaknesses.

In addition, we are committed to fulfilling the objectives of the Improvement Act, which is also covered within 31

U.S.C. 3512. Although not subject to the act, we voluntarily comply with its requirements. We believe that we have implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level as of September 30, 2004. We made this assessment based on criteria established under the Improvement Act and guidance issued by OMB. Also, our auditor reported that we had substantially complied with the applicable requirements of the Improvement Act as of September 30, 2004.

GAO's Office of Inspector General also conducts audits and investigations that are internally focused, functions as an independent fact-gathering adviser to the Comptroller General, and reviews all accomplishment reports totaling \$500 million or more. During fiscal year 2004, the IG examined compliance with our policy and procedures for conflict-of-interest determinations, recruiting and hiring, performance evaluations, career advancement, professional development, continuing professional education, cellular telephone usage, student loans, and time and attendance. This fiscal year, the IG tested compliance with procedures and methodologies for several new performance measures: new hire rate, acceptance rate, retention rate, staff

development, leadership, and organizational climate. No material weaknesses were reported by the IG. During fiscal year 2004, we completed actions related to nine IG recommendations made in previous years, none of which affected the financial statements. There are no unresolved issues.

Limitation on Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in this report rests with our managers. The statements were prepared to report our financial position and results of operations, consistent with the requirements of the Chief Financial Officers Act, as amended (31 U.S.C. 3515). The statements were prepared from our financial records in accordance with the formats prescribed in OMB's Bulletin 01-09, Form and Content of Agency Financial Statements. These financial statements differ from the financial reports used to monitor and control our budgetary resources. However, both were prepared from the same financial records. Our financial statements should be read with the understanding that as an agency of a sovereign entity, the U.S. government, we cannot liquidate our liabilities (i.e., pay our bills) without legislation that provides resources to do so. Although future appropriations to fund these liabilities are likely and anticipated, they are not certain.

Purpose of Each Financial Statement

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

- The balance sheet presents the combined amounts we had available to use (assets) versus the amounts we owed (liabilities) and the residual amounts after liabilities were subtracted from assets (net position).
- The statement of net cost presents the annual cost of our operations. The gross cost less any offsetting revenue earned from our activities is used to arrive at the net cost of work performed under our four strategic goals.
- The statement of changes in net position presents the accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the fiscal year.
- The statement of budgetary resources presents how budgetary resources were made available to us during the fiscal year and the status of those resources at the end of the fiscal year.
- The statement of financing reconciles the resources available to us with the net cost of operating the agency.

U.S. Government Accountability Office

Condensed Balance Sheet

As of September 30, 2004 and 2003

(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Assets		
Intragovernmental assets including funds with the U.S. Treasury	\$68,670	\$69,888
Property and equipment, net	49,180	57,928
Other	382	414
Total Assets	<u>\$118,232</u>	<u>\$128,230</u>
Liabilities		
Intragovernmental liabilities	\$11,248	\$11,127
Accounts payable and salaries and benefits	27,784	23,283
Accrued annual leave and other	29,958	30,415
Workers' compensation	9,819	11,093
Capital leases	5,934	9,647
Total Liabilities	<u>84,743</u>	<u>85,565</u>
Net Position		
Unexpended appropriations	34,621	40,327
Cumulative results of operations	(1,132)	2,338
Total Net Position	<u>33,489</u>	<u>42,665</u>
Total Liabilities and Net Position	<u>\$118,232</u>	<u>\$128,230</u>

U.S. Government Accountability Office
Condensed Statement of Net Cost
For Fiscal Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Net Costs by Goal		
Goal 1: Well-being/financial security of American people	\$194,731	\$186,443
Goal 2: Changing security threats/challenges of global interdependence	131,660	121,975
Goal 3: Transforming the federal government's role	145,761	144,861
Goal 4: Maximize the value of GAO	23,410	19,982
Less: reimbursable services not attributable to goals	<u>(5,493)</u>	<u>(2,153)</u>
Net Cost of Operations	<u><u>\$490,069</u></u>	<u><u>\$471,108</u></u>

U.S. Government Accountability Office
Condensed Statement of Changes in Net Position
For Fiscal Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	2004		2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Balances, Beginning of Fiscal Year	\$2,338	\$40,327	\$5,163	\$29,925
Budgetary Financing Sources				
Current year appropriations	-	457,606	-	453,051
Appropriations used	461,503	(461,503)	441,097	(441,097)
Lapsed budget authority	-	(1,809)	-	(1,552)
Other Financing Sources				
Employee benefit costs imputed to GAO	25,884	-	24,757	-
Other	(788)	-	2,429	-
Total Financing Sources	486,599	(5,706)	468,283	10,402
Net Cost of Operations	(490,069)	-	(471,108)	-
Balances, End of Fiscal Year	(\$1,132)	\$34,621	\$2,338	\$40,327

**U.S. Government Accountability Office
 Condensed Statement of Budgetary Resources
 For Fiscal Years Ended September 30, 2004 and 2003**
 (Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Budgetary Resources		
Current year appropriations	\$457,606	\$453,051
Unobligated appropriations, beginning of fiscal year	18,895	14,198
Reimbursements	11,021	7,100
Total Budgetary Resources	<u>\$487,522</u>	<u>\$474,349</u>
Status of Budgetary Resources		
Obligations incurred	\$471,647	\$453,902
Unobligated appropriations, end of fiscal year	14,066	18,895
Lapsed budget authority	1,809	1,552
Total Status of Budgetary Resources	<u>\$487,522</u>	<u>\$474,349</u>
Relationship of Obligations to Outlays		
Obligations incurred	\$471,647	\$453,902
Obligated balance, net - beginning of fiscal year	50,487	47,856
Less: Obligated balance, net - end of fiscal year	(53,103)	(50,487)
Total Outlays	<u>\$469,031</u>	<u>\$451,271</u>
Outlays		
Disbursements	\$469,031	\$451,271
Collections	(11,021)	(7,100)
Net Outlays	<u>\$458,010</u>	<u>\$444,171</u>

U.S. Government Accountability Office
Condensed Statement of Financing
For Fiscal Years Ended September 30, 2004 and 2003
(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$471,647	\$453,902
Less: Reimbursements	(11,021)	(7,100)
Net obligations	<u>460,626</u>	<u>446,802</u>
Other Resources		
Employee benefit costs imputed to GAO	25,884	24,757
Other	(788)	2,429
Net other resources used to finance activities	<u>25,096</u>	<u>27,186</u>
Total resources used to finance activities	<u>485,722</u>	<u>473,988</u>
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Net decrease/(increase) in unliquidated obligations	876	(5,705)
Costs capitalized on the balance sheet	(11,703)	(14,304)
Total resources used to finance items not part of the net cost of operations	<u>(10,827)</u>	<u>(20,009)</u>
Total resources used to finance the net cost of operations	<u>474,895</u>	<u>453,979</u>
Components That Generate Resources in Future Periods		
Decrease in workers' compensation, accrued annual leave, and other liabilities	(1,630)	(341)
Costs That Do Not Require Resources		
Depreciation	<u>16,804</u>	<u>17,470</u>
Net Cost of Operations	<u>\$490,069</u>	<u>\$471,108</u>

From the Inspector General



Memorandum

Date: October 15, 2004

To: Comptroller General

From: Inspector General – Frances Garcia

Subject: Management Challenges

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

In addition, we reviewed all fiscal 2004 accomplishment reports claiming financial benefits of \$500 million or more and found that GAO has a reasonable basis for claiming these benefits. We also tested the procedures and methodologies used to calculate the new performance measures related to GAO's management of people and found them to be reasonable.

Independent Auditor's Report

COTTON & COMPANY LLP auditors • advisors

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

INDEPENDENT AUDITOR'S REPORT

Cotton & Company LLP audited the Government Accountability Office's (GAO) Balance Sheets as of September 30, 2004 and 2003, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the years then ended. In our report dated November 1, 2004, we stated that we found:

- The 2004 and 2003 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, 2004,
- 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, 2004. 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
November 1, 2004



established 1981

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