

U.S. GENERAL ACCOUNTING OFFICE
SERVING THE CONGRESS AND THE NATION

Performance & Accountability

H I G H L I G H T S



ACCOUNTABILITY REPORT FISCAL 2001
PERFORMANCE REPORT FISCAL 2001
PERFORMANCE PLAN FISCAL 2003

SERVING THE CONGRESS

GAO'S STRATEGIC PLAN FRAMEWORK

MISSION

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

GOALS

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

SUPPORT THE TRANSITION



TO RESPOND TO CHANGING SECURITY THREATS AND THE CHALLENGES OF GLOBAL INTERDEPENDENCE

MAXIMIZE THE VALUE OF GAO



TO A MORE RESULTS-ORIENTED AND ACCOUNTABLE FEDERAL GOVERNMENT

BY BEING A MODEL ORGANIZATION FOR THE FEDERAL GOVERNMENT

THEMES

Demographics

Globalization

Quality of Life

Security

Technology

Government Performance and Accountability

OBJECTIVES

Health care needs and financing
Retirement income security
Social safety net
Education/workforce issues
Effective system of justice
Community investment
Natural resources use and environmental protection
Physical infrastructure

Diffuse security threats
Military capabilities and readiness
Advancement of U.S. interests
Global market forces

Fiscal position of the government
Government financing and accountability
Governmentwide management reforms
Economy, efficiency, and effectiveness improvements in federal agencies

Client relations
Strategic and annual planning
Human capital
Core business and supporting processes
Information technology services

CORE VALUES

Accountability

Integrity

Reliability

From the Comptroller General



Spring 2002

I am pleased to present the highlights of GAO's performance and accountability report, which combines an assessment of our accomplishments in fiscal 2001 with our plans for continued progress through fiscal 2003. In keeping with the spirit of the Government Performance and Results Act (GPRA), we want to let the Congress and the American people know what we have achieved and how we expect to continue to work on their behalf. I am confident that the financial information and the data measuring GAO's performance we are reporting are complete and reliable.

The year 2001 was characterized by a series of unprecedented challenges for the federal government. After a lengthy waiting period to decide the results of the presidential election, the year began with a new administration and a new policy agenda. Within a short time, the leadership of the Senate changed as well. Although the year began with the nation at peace and with modest economic growth, by year's end, the nation was at war and the economy was in recession.

Against this backdrop, GAO served the Congress and the American people in a variety of ways. First, our 2001 *Performance and Accountability Series and High-Risk Update* identified close to 100 major management challenges and program risks at 21 federal agencies and highlighted actions needed to address these serious problems. The series proved useful in carrying out our responsibility under the Presidential Transition Act to serve as a key source of information for the incoming administration and members of the 107th Congress. Among the issues we brought to their attention was the importance of addressing the strategic human capital needs of the federal government being triggered by the impending retirements of the baby-boom generation, by inadequately planned downsizing in the 1990s, by the knowledge and skills imbalances created by a changing economy and new technology, and by the need to create a more performance- and results-oriented work culture.

Citizens benefited directly from GAO's work as federal agencies took a wide range of actions based on our analyses and recommendations. The results ranged from improving services to low-income children and disabled veterans, to protecting consumers from insurance fraud, to identifying billions of dollars in savings and resources that could be reallocated to meet other priorities. In total, GAO's efforts helped the Congress and government leaders to save \$26.4 billion—a \$69 return on every dollar invested in GAO.

Because of our past work and work in progress, we were able to provide timely, rapid assistance on the issues raised by the tragic events of September 11. In numerous congressional hearings, GAO's witnesses offered suggestions for strengthening the security of the nation's airports and air traffic control system, for protecting critical information technology infrastructure, and for enhancing government's ability to analyze and manage security risks, including bioterrorism. We were also able to highlight a number of safeguards that could be used in structuring financial assistance to the airlines, several of which were incorporated in the emergency \$15 billion financial aid package that was enacted.

Closer to home, 2001 was a significant year for GAO because it marked the 80th anniversary of our agency. It was also a year marked by changes designed to better position our agency for the future. As the seventh comptroller general of the United States, I am pleased and honored to be able to lead the more than 3,000 public servants who make up the GAO team. I also take great pride in the many years of service this agency has provided the nation. Building on this legacy, we at GAO look forward to continuing to help the Congress and the nation meet the challenges of the 21st century.



David M. Walker
Comptroller General
of the United States

Introduction

Mission

Support the Congress in meeting its constitutional responsibilities and help improve the performance and accountability of the federal government for the benefit of the American people

The U.S. General Accounting Office is an independent, professional, nonpartisan agency in the legislative branch that is commonly referred to as the investigative arm of the Congress. Created in 1921 as a result of the Budget and Accounting Act, GAO has seen its role evolve over the decades as the Congress expanded the agency's statutory authority and called on GAO with greater frequency for oversight, insight, and foresight in addressing the growing complexity of government and society.

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

In our 80th year as the Congress's "watchdog," we recorded more than \$26 billion in financial benefits for the American taxpayer along with nearly 800 other actions taken to improve government agencies' management or performance. Those numbers reflect not only the achievements of GAO's staff but also those of the Congress and of the many federal agencies that acted on our findings and recommendations to improve their services and operations.

Events of the year prompted rapid responses from GAO as the Congress's priorities shifted. Early in the year, for instance, we began an extensive analysis of voter access and election reform. Our work yielded a series of reports and recommendations that the Departments of Defense and State have pledged to act on. Our work was also instrumental in enabling the House and Senate to develop election reform proposals.

At the same time, we were pursuing solutions to the fragmentation we had found in federal efforts to combat terrorism. During the summer, for example, we recommended that the president appoint a single focal point to oversee the collective efforts of the many agencies involved. In the aftermath of the September 11 attacks, we were well prepared to provide the Congress with information it needed on the nation's security and preparedness.

To track GAO's performance, we use six quantitative measures designed to show the extent to which our work is being used and whether our work is achieving the desired results. In fiscal 2001, we met all but one of our targets. The next few pages highlight our results for the year and provide our new targets. For fiscal 2002, we are introducing an additional performance measure on recommendations.

In addition to our annual quantitative measures, we also set multiyear qualitative performance goals to help us assess whether we have done the work we planned to do for our congressional clients. We ran the first such assessment at the close of fiscal 2001 and present the results below.

For a fuller discussion of our performance measures, our results, targets, and resources expended, please see the full-length version of our performance and accountability report. It is online at www.gao.gov/sp.html along with our full family of strategic planning and performance and accountability publications.

All of GAO's efforts are guided by three 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. GAO accomplishes its mission through a variety of activities, including financial audits, program reviews, investigations, legal support, and policy analyses.

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

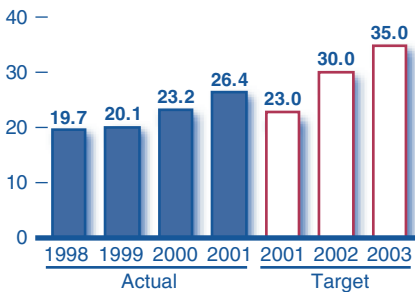
We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high-quality reports, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

GAO's Performance

In fiscal 2001, we exceeded all but one of the targets for GAO's performance measures. As the charts displaying data for the past 4 years show, our results have steadily improved in nearly every instance. We have introduced an additional performance measure for fiscal 2002 and have set targets for our performance through fiscal 2003. Here are the highlights:

Financial Benefits

Dollars in Billions

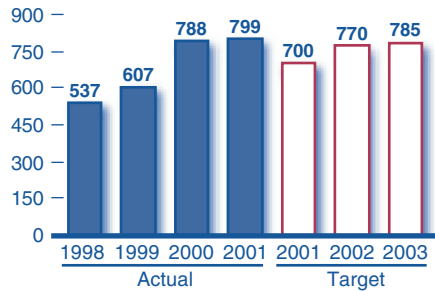


Financial benefits: \$26.4 billion

We achieve financial benefits when our findings and recommendations are used to make government services more efficient, to improve the budgeting and spending of tax dollars, or to strengthen the management of federal resources. Our work on military base realignments and closures, restructuring the defense acquisition workforce, and recapturing unexpended balances in a major federal housing program, for instance, together yielded more than \$12 billion of the year's financial benefits.

Other Benefits

Number of Actions

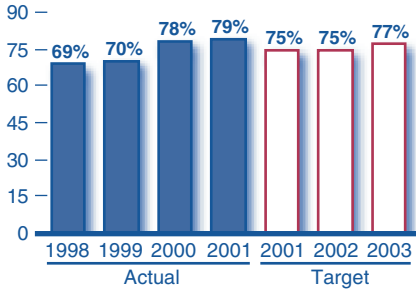


Other benefits: 799 actions taken to improve government agencies' management or performance

Not all actions on our findings and recommendations produce measurable financial benefits. We measure these other types of improvements by tabulating the number of cases in which our findings and recommendations have prompted federal agencies or the Congress to improve management or performance. The 799 actions reported for fiscal 2001 include actions to combat terrorism, to strengthen public safety and consumer protection, to improve computer security controls, and to establish more effective and efficient government operations.

Recommendations Implemented

4-Year Implementation Rate

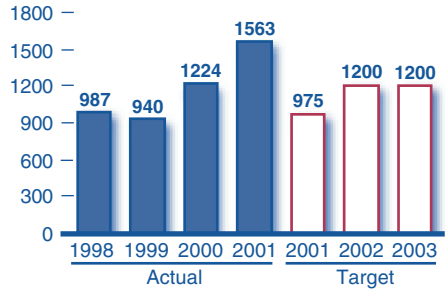


Recommendations implemented: 79 percent of the recommendations made 4 years ago

One way we measure our impact in improving the government's accountability, operations, and services is by tracking the percentage of recommendations we made 4 years ago that have since been implemented. That is, 79 percent of the recommendations we made in fiscal 1997 had been implemented by the end of fiscal 2001. These recommendations lead to the financial and other benefits, such as improvements in national security, health care programs, and controls over federal finances. We use a 4-year interval because our historical data show that agencies often need this time to complete action on our recommendations.

Recommendations Made

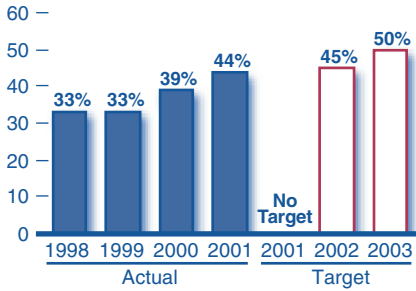
Number Made



Recommendations made: 1,563 recommendations

Because it takes time for agencies to implement our recommendations, we also tabulate, as an interim measure of performance, the number of recommendations we make each year. In fiscal 2001, our recommendations targeted improvements in the economy, efficiency, and effectiveness of federal operations that could yield significant financial and other benefits. Our work on information security and federal financial management is largely responsible for the high number of recommendations in fiscal 2001. We have found that in those two areas, highly specific (and therefore numerous) recommendations are the most helpful to the agencies in question as they work to improve their operations.

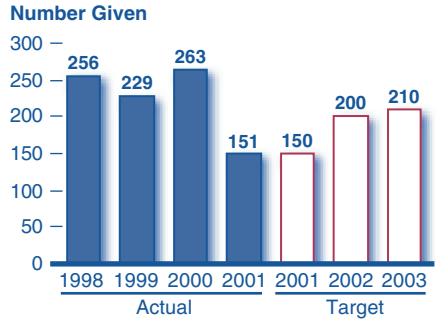
Products with Recommendations



Products containing recommendations: 44 percent—a new measure for fiscal 2002

We are introducing this measure to track the percentage of our written products that contain recommendations to improve government operations and services because simply tracking the number of recommendations made each year does not tell the full story. A report with a single recommendation can produce far-reaching improvements. To develop a fiscal 2002 target for this measure, we calculated previous years' percentages as benchmarks.

Testimonies

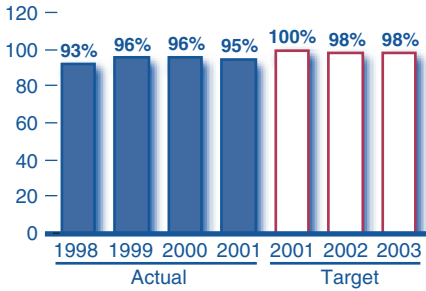


Testimonies: 151 given before the Congress

Because one of GAO's primary functions is to support the Congress in its decision-making and oversight responsibilities, the number of times our witnesses testify each year is an indicator of our responsiveness and the value our clients place on our work. Our target and results for fiscal 2001 were lower than those for previous years because external factors, such as a new Congress and a new administration both beginning work, reduced the number of congressional hearings. Nonetheless, we testified on a broad range of subjects, including combating terrorism, energy prices, and federal budget issues.

Timeliness

Products on Time

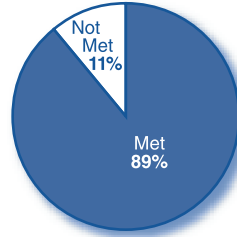


Timeliness: 95 percent of our products delivered on time

For our work to be useful, our clients must have it on a timely basis. We therefore compare actual product delivery dates with the dates agreed to with our clients. We set an idealistic target of 100 percent for fiscal 2001 to emphasize the importance of providing timely information and will continue to strive to deliver all of our products when they are expected. Occasionally, external factors beyond our control may delay a product. To reflect that reality, we have reduced our target for fiscal 2002 and 2003 to 98 percent, still a challenge for our staff, but not an unattainable one.

Qualitative Performance Goals

94 Qualitative Performance Goals



Qualitative performance goals: 89 percent achieved

Our qualitative performance goals lay out the work we plan to do to achieve financial and other benefits. Among the 94 performance goals assessed this year were “identify ways to administer our nation’s immigration laws more efficiently and effectively” and “assess the effectiveness of federal food safety programs.” For a goal to be met, we must have provided information or recommendations on the work planned under the goal’s key efforts, when viewed collectively. Our results—89 percent of the goals met—were heavily influenced by our decision to synchronize our assessment and strategic planning cycles, which meant assessing our performance on these goals after 2 years instead of 3 years as originally planned. The work remaining under these goals has been carried forward in our updated strategic plan.

GAO at Work

Achieving Financial Benefits

Contributing to the Military Base Closure and Realignment Process

GAO has issued a number of reports since 1979 documenting excess infrastructure within the Department of Defense and supporting the need for a base closure and realignment process. After the Congress's authorization of such a process, GAO was legislatively required to provide the Congress with a series of reports and testimonies validating Defense's implementation. GAO monitored and assessed all phases of the decision-making process, including executive-level sessions, for compliance with congressional requirements. In addition, GAO provided staff to each commission established to recommend base closures and realignments for rounds held in 1991, 1993, and 1995. The staff helped shape the commissions' decisions through analysis of issues associated with closing or realigning specific installations. GAO estimated \$6 billion in net savings in fiscal 1999 and 2000 for the three base closure rounds.

Cutting the Cost of Defense's Acquisition Infrastructure

In a series of reports and comments on legislation for the House National Security Committee beginning in the mid-1990s, GAO examined numerous facets of Defense's acquisition infrastructure, of which its acquisition workforce is a major component. GAO's primary messages were that acquisition infrastructure reductions had not kept pace with reductions in other areas of Defense's operations and that the acquisition workforce needed to be consistently defined to effect appropriate reductions. Consequently, Defense redefined the workforce and the Congress directed Defense to develop specific plans for reducing its acquisition workforce. These workforce reductions totaled \$3.32 billion and freed the funds for other high-priority items.

Recapturing Unexpended Balances in a Federal Housing and Urban Development Program

GAO reviewed the unexpended balances in the Department of Housing and Urban Development's Section 8 program, in which the department contracts with property owners to provide housing for low-income families. GAO recommended that the department revise the procedures used to review unexpended balances and ensure that excess balances were recaptured from this program. Subsequently, the department recaptured nearly \$3 billion of unexpended balances from prior years' budgets. According to department officials, the savings directly resulted from their implementation of GAO's recommendation.

GAO at Work

Improving Government Management and Performance

Improving Department of Defense Antiterrorism Efforts

At the request of the House Special Oversight Panel on Terrorism, GAO reviewed Defense's antiterrorism efforts at domestic installations. GAO identified shortcomings that needed to be addressed to provide installation commanders with the necessary information to effectively manage the risk of a terrorist attack and develop an effective antiterrorism program. Defense agreed with GAO's findings and has begun implementing all of the GAO-recommended corrective actions. GAO also worked with Defense to update and improve antiterrorism standards and the secure communication capabilities between some Navy facilities. This work provided a foundation for developing a risk management approach that can be applied to other government operations. GAO presented information about this management approach to various congressional committees and other organizations.

Strengthening Nuclear Nonproliferation and Safety Efforts

Preventing the spread of weapons of mass destruction and ensuring the safety of Soviet-designed reactors are important national security concerns. GAO's work in this area continues to have major impacts, including the implementation of GAO's recommendations designed to strengthen the Department of Energy's program to secure nuclear materials in Russia and sustain the improvements. In addition, Energy has implemented GAO's recommendations to fund only those safety projects that directly improve the operation of Soviet-designed reactors and to focus its Nuclear Cities Initiative funding on only those projects designed to employ Russian weapons scientists. These changes will result in better targeting of limited resources by eliminating projects that did not meet mission goals.

Improving Food Safety

Over the years, public awareness of foodborne illness outbreaks has heightened concerns about the effectiveness of the federal system for ensuring the safety of the nation's food supply. GAO has served as an honest broker of information on the shortcomings of the federal food safety system. In particular, GAO's work has been used extensively in congressional deliberations and by federal program managers to improve the food safety system. For example, GAO's work on seafood safety identified several important weaknesses that compromised the overall effectiveness of the Food and Drug Administration's newly implemented science-based system for seafood. In response, the agency made improvements in 2001 to the science-based system. GAO's work identifying shortcomings in shellfish safety was instrumental in the 2001 adoption of the first national plan to reduce pathogenic bacteria in oysters.

Highlights of **PERFORMANCE**

**GAO's work is organized under
four strategic goals.**

The following pages provide
some of the fiscal 2001
highlights for each of the goals.



Strategic Goal 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

Objectives

- The health needs of an aging and diverse population,
- A secure retirement for older Americans,
- The social safety net for Americans in need,
- An educated citizenry and a productive workforce,
- An effective system of justice,
- Investment in community and economic development,
- Responsible stewardship of natural resources and the environment, and
- A safe and efficient national physical infrastructure.

Congressional Testimonies

Air pollution
Airline competition and federal assistance
Alternative motor fuels
Coast Guard investments
Commercial fisheries
Drug control
Elections
Energy prices and markets
FBI oversight
Food stamps
Health care

Housing
Infrastructure
Intellectual property
Intercity passenger rail
Medicare
Milk prices
Nuclear safety
Pediatric drug research
Postal Service transformation
Prisoner releases
Veterans' employment, training, and health care
Welfare reform

Selected Accomplishments

Protecting Patients in Mental Health Facilities: GAO pointed out the dangers to patients from the use of restraint and seclusion in mental health facilities; poor reporting of serious incidents; and the uneven protection afforded to patients in differing residential treatment settings. This work informed the Congress and set the stage for the passage of the Children's Health Act of 2000 (P.L. 106-310). The act specifies the circumstances in which restraint and seclusion can be used, requires facilities to notify the appropriate agency of restraint- or seclusion-related deaths, and requires facilities to train staff in the use of restraints and alternatives to them. In addition, the Centers for Medicare and Medicaid Services cited GAO's work in its regulations that established standards for the use of restraint or seclusion in psychiatric residential treatment facilities. The regulations require such facilities to

inform state authorities of any deaths or serious injuries involving seclusion or restraint, as well as informing the Centers of any deaths.

Reducing Nuclear Waste Treatment Costs: Starting in 1996, through a series of reports and testimonies, GAO questioned the reasonableness of the Department of Energy's "privatized" approach to treating liquid high-level radioactive wastes at its Hanford, Washington, site. Under this approach, financing and constructing treatment facilities would have cost at least \$8 billion. In June 2000, GAO reported that Energy's privatized approach had not been successful for other complex cleanup projects and suggested that Energy reassess the cost effectiveness of this approach at Hanford, including analyzing different contracting and financing alternatives. Subsequently, Energy terminated its privatized contract because of dramatic cost growth and contractor performance problems. Consistent with GAO's suggestions, Energy assessed alternative contracting and financing strategies and awarded a new contract in December 2000. It expects to save about \$1.3 billion in fiscal 2001 and 2002 and expects additional savings in future years.

Controlling Pollution: GAO's work on pollution control issues has resulted in both tangible program impacts and significant budgetary savings. For example, in a series of reports and testimonies, GAO documented serious defi-

ciencies in states' water quality monitoring programs and recommended that the Environmental Protection Agency (EPA) improve the information collected on water quality conditions across the country. EPA and the Congress have since responded with steps designed to improve the quality and consistency of state monitoring programs. Taken together, these actions are expected to improve the prospects that the right waters will be targeted for cleanup, saving millions of dollars and ensuring that scarce resources are applied where they are most needed. In another example, GAO recommended reduced appropriations across an array of environmental programs, including EPA's Climate Technology Initiative, Clean Air Partnership Fund, and the Great Lakes Cleanup Grants. As a result, over \$400 million in savings was achieved without compromising important environmental objectives.



Strategic Goal 2

Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence

Objectives

- Responding to diffuse threats to national and global security,
- Ensuring military capabilities and readiness,
- Advancing and protecting U.S. international interests, and
- Responding to the impact of global market forces on U.S. economic and security interests.

Congressional Testimonies

A-76 competitive sourcing program
Anthrax vaccine
Aviation security
Cannibalizing military aircraft
Combating terrorism
Computer security
Debt relief
Defense infrastructure
Defense maintenance
Democracy programs
Export controls
F-22 fighter aircraft production
Free Trade Area of the Americas
Homeland security
International disaster assistance
Military base closures
Nuclear nonproliferation
Peacekeeping operations

Selected Accomplishments

Informing the Debate Over Aviation Security: Improving the screening of airline passengers and their baggage moved to the top of the national agenda following the September 11 terrorist attacks. Building upon a considerable body of work on aviation security completed in recent years, GAO delivered four testimonies and two statements for the record during the 2 weeks following the attacks. These efforts, as well as discussions with the Congress since the hearings, helped bring into focus the root problems with our nation's aviation security system and, in particular, the screening process. Subsequently, the Congress passed legislation that addressed the screening concerns GAO identified. In earlier work, GAO had recommended that the Federal Aviation Administration consider pursuing procedures common in other countries, such as limiting access to ticketed passengers, placing armed police at checkpoints, and placing armed militia throughout airports. The agency has begun adopting some of these security screening strategies and procedures.

Improving Accountability Over Defense Inventory: In response to various congressional requests, GAO issued several reports on the Department of Defense's inventory management practices that resulted in significant management improvements, financial savings, and enhanced congressional oversight. GAO

identified key factors causing parts shortages for military weapon systems and the adverse impact these shortages were having on mission performance, morale of military personnel, and actions Defense is taking to address these problems. The work also resulted in recommendations to improve quality deficiency reporting for parts purchased or repaired. Related work further showed that Defense was not effectively tracking the use of funds earmarked for reducing spare part shortages and recommended actions for improving oversight of such funds. GAO also recommended actions to improve the accountability over defense inventory that was being shipped from contractor or Defense facilities. GAO's work showed that these items, which were cumulatively valued at billions of dollars, were often vulnerable to theft and undetected loss. This work resulted in savings of about \$1.8 billion. We made further recommendations to improve the accountability over items containing sensitive military technology that were being disposed. Lastly, GAO made recommendations to improve the practices for determining when to retain or dispose of Defense's multibillion-dollar inventory of spare parts.

Strengthening Federal Information Security: Numerous federal agencies implemented improvements based on GAO's recommendations to better protect the integrity, confidentiality, and availability of their critical computer-supported operations.

Improvements stemming from prior years' and recent follow-up work included actions by the Departments of the Treasury, Veterans Affairs, and Defense and by EPA. Also, audits issued during fiscal 2001 prompted newly initiated actions at the Departments of Interior, Commerce, and Education. Improvements included strengthening access controls, developing and testing service continuity plans, and implementing management processes for ensuring that security controls appropriately address current threats and operate as intended. In addition, GAO's reports and testimonies facilitated congressional oversight by highlighting significant vulnerabilities in critical federal systems and providing detailed information on new viruses and other cyber-related events.



Strategic Goal 3

Support the transition to a more results-oriented and accountable federal government

Objectives

- Analyzing the federal government's long-term and near-term fiscal position, outlook, and options;
- Strengthening approaches for financing the government and determining accountability for the use of taxpayer dollars;
- Facilitating governmentwide management and institutional reforms needed to build and sustain high-performing organizations and more effective government; and
- Recommending economy, efficiency, and effectiveness improvements in federal agency programs.

Congressional Testimonies

Alternative minimum tax
Contracting for services
Controls over federal payments
District of Columbia reforms
Electronic government
Federal budget issues
Federal rulemaking requirements
Federal telecommunications services
Financial statement reliability
Human capital
Implementation of the Government Performance and Results Act
Information security
Information technology workforce
Intergovernmental fiscal issues

IRS modernization
Presidential transition
Reusable launch vehicles
Tax filing season

Selected Accomplishments

Improving Collection of Nontax Debt: GAO has continued to report on the government's serious collection problems with nontax debt—debt, other than taxes, that is owed to the federal government. GAO promoted centralizing the offset of delinquent debt against federal payments prior to the enactment of the Debt Collection Improvement Act of 1996. GAO was also instrumental in the successful merging of the tax refund and administrative offset programs, now better known as the Treasury Offset Program. Since the program's inception in January 1999 and through July 2001, collections of federal nontax debt from tax refund offsets have increased by \$931 million, including \$677 million during fiscal 1999 and 2000.

Focusing Attention on Major Management Challenges and High-Risk Issues: In our 2001 *Performance and Accountability Series and High-Risk Update*, GAO identified almost 100 major management challenges and program risks at 21 federal agencies and 22 high-risk areas. GAO also highlighted the actions needed to address these serious problems. New to the high-risk list were the Postal Service's transformational efforts and long-term outlook, and strategic human capital

management, a pervasive challenge across the federal government. Congressional leaders, who have historically referred extensively to the series in framing oversight hearing agendas, have strongly urged the administration and individual agencies to develop specific performance goals to address these pervasive problems. In addition, the president's recently issued management agenda for reforming the federal government mirrors many of the issues that GAO has focused and reported on in these series, including a government-wide initiative to focus on strategic management of human capital.

Identifying Strategies for a More Cost-Effective Census: In a series of congressionally requested reports over the last year, GAO examined the lessons learned from the 2000 Census. GAO identified financial savings and best practices that could help improve the planning and conduct of the next national headcount in 2010. For example, GAO's recommendations for improving the methods the Bureau of the Census used for calculating the productivity of census enumerators provided the Congress and the bureau with better data for future planning and budgeting decisions. Likewise, GAO's work on the bureau's program for partnering with local governments and nonprofits prompted the bureau to implement improvements to make this key promotion and outreach effort more accountable and performance-oriented. In addition, GAO's review of certain assumptions behind the

bureau's fiscal 2000 budget alerted the Congress to the availability of unobligated funds. Subsequent action taken by the bureau and House and Senate Appropriations Committees led to financial savings of \$360 million.



Strategic Goal 4

Maximize the value of GAO by being a model organization for the federal government

Objectives

- Cultivating and fostering effective congressional and agency relations,
- Implementing a model strategic and annual planning and reporting process,
- Aligning human capital policies and practices to support GAO's mission,
- Developing efficient and responsive business processes, and
- Building an integrated and reliable information technology infrastructure.

Selected Accomplishments

Strengthening Relationships with GAO's Clients and Stakeholders: In fiscal 2001, GAO implemented a set of congressional protocols—policies and procedures to guide interactions with the Congress and to ensure GAO's accountability to the Congress. Responding to client requests, GAO and the Congressional Budget Office developed materials on legislative branch services for new members of the Congress and their staff. GAO also expanded and improved access to information for its congressional clients through a Web-accessible active assignments list. To assist in the congressional and presidential transitions, GAO worked with Office of Management and Budget and Cabinet-level officials to

provide new legislators and officials with information about the challenges facing them; much of the information about GAO's work was made available on a transition Web site. GAO continued its efforts to work across boundaries and encourage knowledge sharing by networking through various boards and panels, including the Comptroller General's Advisory Board, the Educators' Advisory Board, the Accountability Advisory Board, and the global and domestic working groups of accountability organizations.

Aligning GAO's Resources with Our Strategic Goals: To enhance our ability to achieve the goals and objectives of GAO's strategic plan, we completed a major organizational realignment in fiscal 2001. The realignment provides for a clearer and more transparent delineation of responsibilities for achieving strategic goals and in meeting the needs of the Congress. In addition, the realignment centralized certain administrative support services to more efficiently provide human capital, report production and publishing, budget and financial management, information systems desk-side support, security and safety, property management, copying and reproduction services, supplies, and mail to agency staff. The centralization will allow us to devote more resources to GAO's mission work and to obtain economies of scale by providing central and shared services.

Aligning Human Capital Policies and Practices to Support GAO's Mission:

We have made significant progress toward reshaping GAO's human capital profile to better support the agency's mission. In fiscal 2001, under new personnel management authorities provided by human capital legislation enacted in 2000, GAO offered qualified staff opportunities for early retirement and hired several senior-level specialists. GAO also instituted new recruiting strategies to bring in diverse, high-caliber staff with the skills needed to meet GAO's strategic goals, particularly as senior GAO staff begin to retire in increasing numbers. As part of GAO's overall workforce planning, we also developed an inventory of staff knowledge and skills that was used in conjunction with an employee preference survey to realign staff to better meet our strategic goals. Finally, GAO completed the development of a new performance appraisal system, to be implemented in 2002, based on the strategic plan and needed competencies; new training and professional development programs are being developed to support these competencies.



Strategies and Challenges — Achieving Our Goals

For GAO, achieving 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, including the following:

- evaluations of federal policies and the performance of agencies;
- oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;
- investigations to assess whether illegal or improper activities are occurring;
- analyses of the financing for government activities;
- constructive engagements in which we work proactively with agencies, when appropriate, to help guide their efforts toward positive results;
- legal opinions to determine whether agencies are in compliance with applicable laws and regulations;
- policy analyses to assess needed actions and the implications of proposed actions; and
- additional assistance to the Congress in support of its oversight and decision-making responsibilities.

To broaden our institutional knowledge and, in turn, improve our service to the Congress and the American public, GAO builds strategic working relationships with other national and international government accountability and professional organizations as these next sections show.

Planning with Others

A number of advisory groups support GAO's strategic and annual performance planning. GAO works actively with the Comptroller General's Advisory Board, for instance, which includes more than 40 members from the public and private sectors whose areas of expertise mirror GAO's strategic objectives. GAO meets with the board once a year and works with individual members throughout the year on our strategic objectives and initiatives, including future work GAO should conduct on counterterrorism issues. In addition, GAO uses the National Intergovernmental Audit Forum chaired by the comptroller general, 10 regional intergovernmental audit forums, and other means to consult regularly with federal inspectors general and state and local auditors.

We also work with a number of issue-specific and technical panels to improve our strategic and annual planning. For example, we meet periodically with our Accountability Advisory Council to obtain advice on vital and emerging issues pertaining to financial management and accountability

reporting, with our Executive Council on Information Management and Technology to obtain advice on critical information management issues, and with our Educators' Advisory Panel to identify the best practices for recruiting and developing GAO's staff.

In the international area, GAO participates actively in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of about 180 national audit offices from around the world. At the 17th International Congress of Supreme Audit Institutions in Seoul, Korea, in October 2001, the comptroller general chaired an overall theme on strengthening the role of supreme audit institutions in administrative and government reform efforts and agreed to chair a 10-country task force charged with developing a strategic planning framework for INTOSAI. The comptroller general is a member of the INTOSAI Governing Board and also participates each year in an informal global working group, in which the heads of GAO's counterparts from the G-7 and other selected countries meet to discuss strategic plans and issues of mutual concern.

Collaborating with Others

GAO collaborates on crosscutting issues with numerous organizations to strengthen professional standards, provide technical assistance, leverage resources, and develop best practices. For example, in response to a statutory mandate, the comptroller general

convened the Commercial Activities Panel to review the government's policies and procedures for deciding whether commercially available services should be performed by federal employees or by the private sector. The panel, which includes senior leaders from government agencies, federal labor unions, contractor groups, and academia, will develop a set of principles to guide agencies' sourcing decisions and make related recommendations.

GAO has long collaborated with others in carrying out its leadership role in the area of financial management. We work closely with the Office of Management and Budget, the Department of the Treasury, the inspector general community, and others in developing federal accounting standards and preparing and auditing the U.S. government's financial statements. In July 2001, GAO and the President's Council on Integrity and Efficiency jointly issued a Financial Audit Manual for performing financial statement audits of federal entities. The manual provides common methodologies and ground rules for conducting these audits and will improve consistency among agencies' audits. GAO also sets the internal control standards and the auditing standards for government and provides technical advice, training, and other outreach to the governmental community to ensure that the standards are understood and accepted.

As chair of the Joint Financial Management Improvement Program (JFMIP), the comptroller general initiated a series of sessions at which the JFMIP principals (the comptroller general, the secretary of the treasury, the director of the Office of Management and Budget, and the director of the Office of Personnel Management) discussed pressing governmentwide financial management issues. These summits were the first time the JFMIP principals had gathered in 10 years. They focused on key issues such as restructuring the Federal Accounting Standards Advisory Board to allow more input from the public, establishing audit committees for the major federal agencies, defining success measures for financial management that go beyond an unqualified audit opinion on financial statements, addressing the impediments to an audit opinion on the U.S. government's consolidated financial statements, and promoting improved financial management systems and human capital practices. Through this initiative, the JFMIP principals have reinvigorated efforts to improve financial management across government. They will continue to review and monitor strategies critical to the full and successful implementation of existing statutes on federal financial management reform.

Addressing Management Challenges That Could Affect Our Performance

Two of the management challenges that may affect GAO's performance in fiscal 2003—human capital and information technology issues—were identified in our previous performance and accountability report. We have made progress in addressing these issues through the work we carry out under our fourth strategic goal, but we continue to view them as significant challenges. In light of the far-reaching effects of the September 11 terrorist attacks, we are adding a third management challenge: security and safety.

After a decade of downsizing and curtailed investments in human capital, it became increasingly clear that GAO needed new human capital strategies if the agency is to meet the current and emerging needs of the Congress and the nation's citizens. The initiatives we have in progress or plan to begin in the coming months should build on the progress we have made in the past 2 years, yielding further improvements in how we recruit, develop, evaluate, compensate, and retain our staff. We will continue to develop a human capital strategic plan that both supports our strategic goals and ensures that diversity, skills, leadership, and retention issues are addressed.

As with human capital, information technology (IT) investments at GAO declined significantly during the mid- to

late 1990s as a result of mandated spending reductions. Consequently, information technology became a management challenge as we entered the 21st century. We have made progress in building an integrated and reliable IT infrastructure that supports the achievement of our goals and objectives, but we must sustain these efforts and begin others to ensure that GAO can continue to provide quality, timely, efficient, and effective services to the Congress and the public. Our IT plan for fiscal 2001 through 2004 is providing a foundation for initiatives and investments, and we are expanding and accelerating our efforts to protect our agency's information assets.

The safety and security of GAO's people, information, and assets are necessarily a top priority for GAO. In the aftermath of the September 11 terrorist attacks and the subsequent anthrax incidents, we designated safety and security a management challenge for our agency. We are conducting threat assessments and a comprehensive evaluation of security that we plan to complete in early 2002. Guided by these assessments, we will develop an implementation plan to strengthen security and safety within GAO. We also plan to review and update our emergency preparedness and response plan and develop a continuity of operations plan so that we are prepared for, can respond to, and will recover from any major threat or crisis.

Mitigating External Factors That Could Affect Our Performance

Several external factors could affect the achievement of our performance goals, including national and international upheavals, the resources we receive, and limitations imposed on our work by other organizations or limitations on the ability of other federal agencies to make the improvements we recommend. For example, as the Congress focuses on unpredictable events, such as the global threat posed by sophisticated terrorist networks, international financial crises, or natural disasters, the mix of work we are asked to undertake may change, diverting our resources from some of our strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways:

- being alert to possibilities that could shift the Congress's, and therefore our, priorities;
- continuing to identify in our products and meetings with the Congress conditions that could trigger new priorities; and
- quickly redirecting our resources, as appropriate, so that we can deal with major changes that do occur.

At the same time, with concerns about operational security unusually high at home and abroad, it may be more difficult for us to obtain information and

report on certain issues. Historically, GAO's auditing and information gathering has been limited where the intelligence community is concerned. Nor have we had the authority to access or inspect records or other materials held by other countries or by multinational institutions that the United States works with to protect its interests. These limitations may hamper our ability to fully assess what progress is being made in addressing homeland security issues, and because some of our reports may be subjected to greater classification reviews than in the past, their public dissemination may be limited.

Resources Needed to Achieve Our Fiscal 2003 Performance Goals

GAO has requested a budget of \$458 million for fiscal 2003 to maintain current operations to support the Congress as outlined in our strategic plan and to enhance the safety and security of GAO's staff. This funding level would allow us to support our authorized level of 3,269 full-time equivalent personnel. Almost 80 percent of GAO's fiscal 2003 budget will provide for employee compensation and benefits. The next largest portion of our budget—about \$50 million—is for contract services supporting both GAO's mission work and administrative operations.

The president has proposed a governmentwide initiative to transfer accountability for accruing retirement benefits and postretirement health benefits costs from the Office of Personnel Management to individual agencies. This initiative is a shift in the accounting treatment of these costs, which are presently a component of mandatory costs and in future could be included in discretionary budget authority. Implementation of this proposal is contingent on enactment by the Congress of authorizing language submitted by the administration. If this proposal is enacted, GAO is requesting budget authority of about \$21.3 million to cover fiscal 2003 costs.

During fiscal 2003, we plan to increase our investments in maximizing the productivity of our workforce by continuing to address two of our management challenges: human capital

and information technology. For example, we will target increased resources to continue initiatives to address skill gaps, maximize staff productivity, and increase their effectiveness; to update our training curriculum to address organizational and technical needs; and to train new staff. We will continue to focus our hiring efforts in fiscal 2003 on recruiting talented entry-level staff. On the information technology front, we plan to continue initiatives designed to increase our employees' productivity, facilitate knowledge-sharing, maximize the use of technology, and enhance the tools available at the desktop. Finally, we will also make the investments necessary to address our third management challenge—enhancing the safety and security of GAO's people, facilities, and other assets.

GAO's Proposed Budget, Fiscal 2003

| Strategic goal | Dollars in thousands | Full-time equivalent staff |
|---|-----------------------------|-----------------------------------|
| Goal 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 | \$178,454 | 1,293 |
| Goal 2 Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence | 124,945 | 884 |
| Goal 3 Help transform the federal government's role and how it does business to meet 21 st century challenges | 136,420 | 948 |
| Goal 4 Maximize the value of GAO by being a model federal agency and a world-class professional services organization | 17,983 | 144 |
| Total | \$457,802 | 3,269 |

Note: In updating GAO's strategic plan, the wording for goals 3 and 4 was revised for fiscal 2002 and 2003. Elsewhere in this report, the wording in effect for fiscal 2000 and 2001 is used. The wording for goals 1 and 2 did not change.

Financial Systems, Internal Controls, and Condensed Financial Statements

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

GAO is committed to fulfilling the internal control objectives of 31 U.S.C. 3512, formerly the Federal Managers' Financial Integrity Act (FMFIA) and of the Federal Financial Management Improvement Act (FFMIA) of 1996. GAO's management assesses compliance with these controls through a series of comprehensive internal reviews and action is taken to correct deficiencies as they are identified.

We have assessed GAO's internal controls as of September 30, 2001, and we believe that we have effective internal controls in place, as of that date. Additionally, GAO's independent auditor found that GAO maintained effective internal controls over financial reporting and compliance with all applicable laws and regulations. Consistent with GAO's evaluation, the auditor found no material internal control weaknesses. In addition, on the basis of assessments of our financial systems, we believe that we have implemented and maintained financial systems that comply substantially with the objectives of FFMIA for the fiscal year ended September 30, 2001.

GAO's Audit Advisory Committee assists the comptroller general in overseeing the effectiveness of our financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to GAO's financial operations. The committee has three members:

- *Sheldon S. Cohen* (chairman) is a certified public accountant and practicing attorney in Washington, D.C.; former commissioner and chief counsel of the Internal Revenue Service; and senior fellow of the National Academy of Public Administration.
- *Alan B. Levenson* is a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission.
- *Katherine D. Ortega* is a certified public accountant, former treasurer of the United States, former commissioner of the Copyright Royalty Tribunal, and a former member of the President's Advisory Committee on Small and Minority Business.

Condensed financial statements for GAO follow. Our detailed statements with their accompanying notes appear in the full-length version of this report. Our financial statements for the fiscal year ended September 30, 2001, were audited by an independent auditor, Cotton & Co., LLP. Our financial

statements for the fiscal year ended September 30, 2000, were audited by Clifton Gunderson, LLP, also an independent auditor. Clifton Gunderson's 5-year contract with GAO ended with fiscal 2000.

Cotton & Co., LLP, rendered an unqualified opinion on GAO's financial statements and an unqualified opinion on the effectiveness of GAO's internal controls over financial reporting and compliance with laws and regulations. GAO's auditor also reported that GAO had substantially complied with the applicable requirements of FFMIA 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.

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

**As of September 30, 2001 and 2000
(Dollars in Thousands)**

| | <u>2001</u> | <u>2000</u> |
|--|-------------------|-------------------|
| Assets | | |
| Intragovernmental assets including funds with the U.S. | | |
| Treasury | \$56,736 | \$55,602 |
| Property and equipment, net | 66,318 | 74,863 |
| Other | 401 | 369 |
| | <u> </u> | <u> </u> |
| Total Assets | <u>\$123,455</u> | <u>\$130,834</u> |
| Liabilities | | |
| Intragovernmental liabilities | \$17,062 | \$19,999 |
| Accounts payable and salaries and benefits | 28,636 | 25,248 |
| Accrued annual leave and other | 27,836 | 27,573 |
| Workers' compensation | 7,954 | 8,008 |
| Capital leases | 5,360 | 7,730 |
| | <u> </u> | <u> </u> |
| Total Liabilities | <u>86,848</u> | <u>88,558</u> |
| Net Position | | |
| Unexpended appropriations | 21,258 | 23,515 |
| Cumulative results of operations | 15,349 | 18,761 |
| | <u> </u> | <u> </u> |
| Total net position | <u>36,607</u> | <u>42,276</u> |
| | <u> </u> | <u> </u> |
| Total Liabilities and Net Position | <u>\$123,455</u> | <u>\$130,834</u> |

**U.S. General Accounting Office
Condensed Statement of Net Cost
For Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Thousands)**

| | <u>2001</u> | <u>2000</u> |
|--|-------------------------|-------------------------|
| Net Costs by Goal | | |
| Goal 1: Well-being/financial security of American people | \$161,112 | \$153,448 |
| Goal 2: Changing security threats/challenges of global interdependence | 93,440 | 96,993 |
| Goal 3: Results-oriented and accountable federal government | 139,459 | 134,637 |
| Goal 4: Maximize the value of GAO | 20,695 | 19,760 |
| Less: Reimbursable services not attributable to goals | <u>(1,652)</u> | <u>(712)</u> |
| Net Cost of Operations | <u><u>\$413,054</u></u> | <u><u>\$404,126</u></u> |

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

For Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Thousands)

| | 2001 Cumulative Results of Operations | 2001 Unexpended Appropriations | 2000 Cumulative Results of Operations | 2000 Unexpended Appropriations |
|---|--|--------------------------------------|--|--------------------------------------|
| Balances, Beginning of Fiscal Year | \$18,761 | \$23,515 | \$17,328 | \$22,777 |
| Reinstatement of the GAO Building and Land as a Multi-Use Heritage Asset | - | - | 9,963 | - |
| Balances, Beginning of Fiscal Year, as Adjusted | 18,761 | 23,515 | 27,291 | 22,777 |
| Budgetary Financing Sources | | | | |
| Current year appropriations | - | 384,020 | - | 377,561 |
| Appropriations used | 387,148 | (387,148) | 376,640 | (376,640) |
| Other | | 871 | | (183) |
| Other Financing Sources | | | | |
| Employee benefit costs imputed to GAO | 19,681 | - | 19,009 | - |
| Other | 2,813 | - | (53) | - |
| Total Financing Sources | 409,642 | (2,257) | 395,596 | 738 |
| Net Cost of Operations | (413,054) | - | (404,126) | - |
| Balances, End of Fiscal Year | \$15,349 | \$21,258 | \$18,761 | \$23,515 |

U.S. General Accounting Office
Condensed Statement of Budgetary Resources
For Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Thousands)

| | <u>2001</u> | <u>2000</u> |
|--|------------------|------------------|
| Budgetary Resources | | |
| Current year appropriations | \$384,020 | \$377,561 |
| Transfers of budget authority | 983 | 125 |
| Unobligated appropriations, beginning of fiscal year | 4,264 | 4,477 |
| Reimbursements | 3,676 | 8,490 |
| Total Budgetary Resources | <u>\$392,943</u> | <u>\$390,653</u> |
| Status of Budgetary Resources | | |
| Obligations incurred | \$385,319 | \$386,081 |
| Unobligated appropriations, end of fiscal year | 7,512 | 4,264 |
| Lapsed budget authority | 112 | 308 |
| Total Status of Budgetary Resources | <u>\$392,943</u> | <u>\$390,653</u> |
| Relationship of Obligations to Outlays | | |
| Obligations incurred | \$385,319 | \$386,081 |
| Obligated balance, net - beginning of fiscal year | 50,851 | 48,866 |
| Less: Obligated balance, net - end of fiscal year | (48,970) | (50,851) |
| Total Outlays | <u>\$387,200</u> | <u>\$384,096</u> |
| Outlays | | |
| Disbursements | \$387,200 | \$384,096 |
| Collections | (3,676) | (8,490) |
| Net Outlays | <u>\$383,524</u> | <u>\$375,606</u> |

U.S. General Accounting Office
Condensed Statement of Financing
For Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Thousands)

| | <u>2001</u> | <u>2000</u> |
|---|-------------------------|-------------------------|
| Resources Used to Finance Activities | | |
| Budgetary Resources Obligated | | |
| Obligations incurred | \$385,319 | \$386,081 |
| Less: Reimbursements | (3,676) | (8,490) |
| Net obligations | <u>381,643</u> | <u>377,591</u> |
| Other Resources | | |
| Employee benefit costs imputed to GAO | 19,681 | 19,009 |
| Other | 2,813 | (53) |
| Net other resources used to finance activities | <u>22,494</u> | <u>18,956</u> |
| Total resources used to finance activities | <u>404,137</u> | <u>396,547</u> |
| Resources Used to Finance Items Not Part of the Net Cost of Operations | | |
| Net decrease (increase) in unliquidated obligations | 5,505 | (951) |
| Costs capitalized on the balance sheet | (13,983) | (9,204) |
| Total resources used to finance items not part of the net cost of operations | <u>(8,478)</u> | <u>(10,155)</u> |
| Total resources used to finance the net cost of operations | 395,659 | 386,392 |
| Costs That Require Resources in Future Periods | | |
| Expenses to be funded by future appropriations | 298 | 1,159 |
| Costs That Do Not Require Resources | | |
| Depreciation | 17,097 | 16,575 |
| Net Cost of Operations | <u><u>\$413,054</u></u> | <u><u>\$404,126</u></u> |

COTTON & COMPANY LLP

auditors ♦ advisors

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

Independent Auditor's Report

We audited the General Accounting Office's (GAO) Balance Sheet as of September 30, 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the year then ended. GAO's financial statements as of September 30, 2000, and for the year then ended, were audited by other auditors whose report dated December 15, 2000, expressed an unqualified opinion on those statements, before the restatement of the Statement of Net Cost as discussed below.

In our report dated December 15, 2001, we stated that we found:

- The 2001 financial statements referred to above are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- GAO maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2001,
- 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.

As discussed in our report, GAO changed its fiscal year 2001 presentation of net operating costs consistent with its strategic planning process, and restated the presentation of fiscal year 2000 costs for consistency. We audited the basis and methodology GAO used to restate the presentation of the fiscal year 2000 net operating costs. In our opinion, such restatement is appropriate and has been properly applied.

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, 2001. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Our conclusion on compliance with laws and regulations is intended solely for the information and use of the management of GAO, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

COTTON & COMPANY LLP



Charles Hayward, CPA

Alexandria, Virginia
 December 15, 2001



established 1981

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www.gao.gov

This highlights booklet and the full version of our performance and accountability report on which it is based are available through our Web site at www.gao.gov/sp.html.

Linked to that same page is our family of other strategic planning and performance and accountability publications.

Other Web pages of possible interest:

GAO's audit and evaluation reports and testimonies www.gao.gov/audit.htm

GAO's legal products www.gao.gov/legal.htm

FraudNet www.gao.gov/fraudnet.htm

For the press www.gao.gov/pressmain.html

Employment opportunities www.gao.gov/jobopp.htm

