

*Performance and  
Accountability*

HIGHLIGHTS

Fiscal 2003

# SERVING THE CONGRESS

## GAO'S MISSION

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

## SCOPE OF WORK

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

## CORE VALUES

### ACCOUNTABILITY

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

### INTEGRITY

We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of reputation, and GAO's approach is designed to ensure 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, testimonies, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

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## *From the Comptroller General*




Source: GAO.

January 2004

Having just ended my fifth year as Comptroller General of the United States and head of the U.S. General Accounting Office (GAO), it is a pleasure to present our fiscal 2003 performance and accountability report. With this report, we attempt to convey the outstanding achievements of all GAO employees as they work to serve the Congress and the American people. GAO is in the performance and accountability business; our work covers every area the federal government is involved in, or is thinking about getting involved in, anywhere in the world. Simply put, we try to help the federal government work better and for

the benefit of all our nation's citizens. I believe that this report demonstrates our many contributions to that objective in fiscal 2003, and I am confident that the performance data and financial information in this report are complete and reliable. Importantly, we met or exceeded all but one of our seven key performance measures, and we received a clean opinion from independent auditors on our financial statements. While the value of many of our accomplishments this past year could not be measured in dollars, many could. In that regard, we helped the Congress and government leaders achieve a total of \$35.4 billion in financial benefits—a \$78 return on every dollar that we spent.

Looking over the past year, our work addressed many of the difficult issues that confront the nation, including diverse and diffuse security threats, changing demographic trends, increasing interdependency, rapidly evolving science and technology changes, a variety of quality-of-life issues, as well as government transformation challenges, and increasing federal budgetary constraints. Perhaps the foremost challenge government decisionmakers faced this year was to ensure the security of the American people. By providing professional, objective, nonpartisan information and analyses, we helped inform the Congress and executive branch agencies on key issues such as the chal-



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lenges involved in creating the Department of Homeland Security, including its mission, make-up, structure, cost, and implementation; and the nature and scope of threats confronting the nation's nuclear weapons facilities, its information systems, and all areas of its transportation infrastructure—air, surface, and maritime. Among the programs that required additional focus due to changing demographic trends were the quality of care in the nation's nursing homes and the risks to the government's single-employer pension insurance program. We also were actively engaged in various efforts to transform selected government entities (e.g., the United States Postal Service and the Federal Bureau of Investigation) and functions (e.g., strategic human capital and real property management). Our work in these and other areas covered programs that touch millions of lives and involve billions of dollars.

Finally, the delayed budget deliberations for fiscal 2003 were symptoms of the difficult decisions facing the Congress as the nation confronts what appears to be a period of recurring budget deficits and long-term fiscal challenges. In January 2003, as the new Congress began its session, we issued our latest series of reports that identified management challenges and program risks at 23 federal agencies and highlighted actions needed to address these serious problems. Like the previous editions, the 2003 reports made clear how vital it is that federal agencies take a strategic approach to their missions and ways of doing business. At the same time, we updated our reports that identify areas at high risk due to their greater vulnerabilities to waste, fraud, abuse, and mismanagement; major challenges associated with their economy, efficiency, or effectiveness; or the need for broad-based transformations.

In these and other areas of our work—some of which are highlighted on page 5—the American people benefited this year as federal agencies took a wide range of actions based on our analyses and recommendations and as our efforts heightened the visibility of issues needing attention. It is important for our nation and its citizens not only that these issues are made visible, but also that the nation's leaders attend to them. I feel for-

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tunate and honored that, more often than not, our clients, executive branch officials, and others listen to what we have to say and act on our recommendations. Furthermore, our reports are typically published and available on our Web site ([www.gao.gov](http://www.gao.gov)), which keeps us accountable to our clients, the American people, and the world at large.

In addition to having an impact on important national issues, we have taken major steps internally to be a model federal agency and world-class professional services organization. Of our three management challenges—human capital, physical security, and information security—no area is more important to our ability to fulfill our mission than how we manage our human capital—our people. In recent years, we have taken a variety of steps to attract, retain, motivate, and reward a quality and high-performing workforce—steps that included revamping our recruiting and hiring programs and creating a state-of-the-art, competency-based performance management system. As this is written, the Congress is poised to grant us further human capital flexibilities that will allow us, among other things, to move to an even more performance-based compensation system. Our people are truly our most valuable asset. How prudently we manage and invest in them will determine, to a large extent, how well-equipped we will be to serve the Congress and the American people in the years to come.

In summary, fiscal 2003 was another successful year for us. I believe that those who read this report will agree that the taxpayers received an excellent return on their investment from GAO.



David M. Walker  
Comptroller General  
of the United States



Information access battle  
GAO finds

GAO Panel on Space-based Missile Sensor

Watchdog at brother  
GAO finds

ny's maintenance d  
ing victim to

GAO Auditors Say IMF Reform Short

GAO cites concern

U.S. Netted Little From Cancer Drug

GAO Finds Hurdles to Linking Financial Firms to Fraud

GAO: Landmarks Shortchanged

GAO: Students Test

GAO to broadly probe Iraq contract

GAO Triples Estimates of

GAO shakes its financial finger at

GAO Faults U.S. Survey of

GAO seeks public input on job competition appeals process

Stock fund fees climb as market falls

GAO Says IRS Performance

GAO Chief Aims to Raise The Bar on Pay Raises

GAO pushes to explore

Managing Associate General Counsel, GAO

GAO seeks public input on job competition appeals process

GAO makes portable office go

Keeping the Procurement System Honest

GAO Chief Aims to Raise The Bar on Pay Raises

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GAO Chief Aims to Raise The Bar on Pay Raises

# In fiscal 2003, GAO served the Congress and the American people by helping to --

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- Identify steps to reduce improper payments and credit card fraud in government programs.
- Make sound decisions on funding national defense.
- Restructure government and improve its processes and systems to maximize homeland security.
- Assess the risks of major weapon systems acquisitions.
- Prepare the financial markets to continue operations if terrorism recurs.
- Tighten security at nuclear weapons facilities.
- Oversee the multibillion dollar restoration of the Everglades.
- Update and strengthen government auditing standards.
- Estimate the exposure of U.S. troops to chemical plume during the 1991 Gulf War.
- Enhance the quality of nursing home care.
- Improve the administration of Medicare as it undergoes reform.
- Strengthen the U.S. visa process as an antiterrorism tool.
- Improve transportation security in the wake of September 11.
- Encourage and help guide federal agency transformations.
- Contribute to congressional oversight of the federal income tax system.
- Identify human capital reforms needed at the Department of Defense, the Department of Homeland Security, and other federal agencies.
- Raise the visibility of long-term financial commitments and imbalances in the federal budget.
- Serve as a model for other federal agencies by modernizing our approaches to managing and compensating our people.
- Reduce security risks to information systems supporting the nation's critical infrastructures.
- Improve the Defense Department's business operations, software development, and information technology acquisition processes.
- Ensure effective implementation of the No Child Left Behind Act.
- Oversee programs to protect the health and safety of today's workers.
- Ensure the accountability of federal agencies through audits and performance evaluations.

## *Introduction*

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

Today, we examine the full breadth and scope of federal activities and programs, publish thousands of reports and other documents annually, testify before the Congress over 200 times a year on average, and provide a number of related services intended to aid decision makers and the general public alike. We also study national and global trends to anticipate their implications for public policy. By making recommendations to improve the accountability, operations, and services of government agencies, we contribute not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers’ trust and confidence in their government.

To accomplish our mission, we rely on a workforce of highly trained professionals who hold degrees in many academic disciplines, including accounting, law, engi-

neering, public and business administration, economics, computer science, and the social and physical sciences. They are arrayed in 13 research, audit, and evaluation teams. These teams are backed by staff offices and mission support units. About three-quarters of our more than 3,250 employees are based at our headquarters in Washington, D.C.; the rest are deployed in 11 field offices.

To ensure that we are well positioned to meet the Congress’s future needs, we update our 6-year strategic plan every 2 years, consulting extensively during the update with our clients in the Congress and with other experts (see our strategic plan framework on page 7). Using the plan as a blueprint, we lay out the areas in which we expect to conduct research, audits, analyses, and evaluations to meet our clients’ needs, and we allocate the resources we receive from the Congress accordingly.

On the pages that follow, we provide highlights of our performance for fiscal 2003. We also present condensed financial statements and the independent auditor’s opinion on them. If you would like additional information, please see the full-length version of our performance and accountability report at [www.gao.gov/sp.html](http://www.gao.gov/sp.html). Our performance plan for fiscal 2004 is also available through that same page.



# SERVING THE CONGRESS GAO'S STRATEGIC PLAN FRAMEWORK



## MISSION

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



Fiscal 2003-2007

Source: GAO.

# GAO's Performance

In fiscal 2003, as in other years, the challenges that most urgently engaged the attention of the Congress helped to define our priorities. Our work on issues such as the nation's ongoing battle against terrorism, Social Security and Medicare reform, the implementation of major education legislation, human capital transformations at selected federal agencies, and the security of key government information systems all helped congressional members and their staffs to develop new federal policies and programs and oversee ongoing ones.

We performed our work in accordance with our core values and within our strategic plan for serving the Congress. This plan sets forth four broad strategic goals that serve as the organizing principles for our work, which is as wide-ranging as the interests and concerns of the Congress. Teams supporting the first three goals completed congressional requests, mandates, and self-initiated work related to federal social programs, defense, and government efficiency and effectiveness. Staff in other teams and units implemented initiatives in support of the fourth goal—an internal one that challenges us to continuously improve our operations and resources.

To support the Congress in meeting its constitutional responsibilities, 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 monitored our performance of these efforts using seven annual performance measures, and the results of our work are reflected in our outstanding performance this year—we exceeded our performance targets for six of our seven measures (see table 1).<sup>1</sup> Two of these 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 measures track recommendations implemented, new products (i.e., issued in fiscal 2003) with recommendations, and recommendations made that help us assist the Congress and others in achieving financial and other benefits. Testimonies and timeliness measures indicate to a great extent how well we, as an information provider, serve our primary client, the Congress.

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<sup>1</sup>For more information on our annual performance measures and how we ensure the completeness and reliability of our performance data, see the Data Quality and Program Evaluation section in Part II of our full fiscal 2003 Performance and Accountability Report. This report can be viewed at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

In fiscal 2003, we greatly exceeded two of our annual performance targets—other benefits and new recommendations made. We surpassed our target for other benefits by about 30 percent because we worked on issues that were of significant value to the Congress, the executive branch, and the public. Our work helped to shape legislation in a

variety of areas and to improve government operations and functions. We exceeded our target for new recommendations made primarily because we issued several products that contained very specific recommendations that helped the agencies being reviewed systematically implement changes needed.

**Table 1: Agencywide Summary of Annual Measures and Targets**

Performance measure	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003			2004 Target
					Target	Actual	Met?	
Financial benefits (billions)	\$20.1	\$23.2	\$26.4	\$37.7 <sup>a</sup>	\$32.5	\$35.4	Yes	\$35.0
Other benefits	607	788	799	906	800	1,043	Yes	900 <sup>b</sup>
Past recommendations implemented	70%	78%	79%	79%	77%	82%	Yes	79% <sup>b</sup>
New recommendations made	940	1,224	1,563	1,950	1,250	2,175	Yes	1,500 <sup>b</sup>
New products with recommendations <sup>c</sup>	33%	39%	44%	53%	50%	55%	Yes	50%
Testimonies	229	263	151	216	180	189	Yes	190 <sup>b</sup>
Timeliness	96%	96%	95%	96%	98%	97%	No	98%

Source: GAO.

<sup>a</sup>Changes GAO made to its methodology for tabulating financial benefits in part caused our results to increase beginning with the fiscal 2002 results.

<sup>b</sup>On the bases of past performance and expected future work, we revised these targets after we issued our fiscal 2004 performance plan. The original targets were other benefits, 820; past recommendations implemented, 77%; new recommendations made, 1,250; and testimonies, 200.

<sup>c</sup>Not all products that we issue during the fiscal year contain recommendations—some are purely informational. This target allows us to respond to a variety of requests that may not result in recommendations.

***Benefits Reported***

Many of the benefits produced by our work can be quantified as dollar savings for the federal government (financial benefits), while others cannot (other benefits). Both types of benefits resulted

from our efforts to provide information to the Congress that helped to (1) improve services to the public, (2) change laws and regulations, and (3) promote sound agency and government-wide management.

### *Financial Benefits*

We produce financial benefits when our work contributes to actions taken by the Congress or the executive branch to

- reduce annual operating costs of federal programs or activities;
- lessen the costs of multiyear projects or entitlements; or
- increase revenues from debt collection, asset sales, changes in tax laws, or user fees.

In fiscal 2003, our work generated \$35.4 billion in financial benefits. The funds made available in response to our work may be used to reduce government expenditures or reallocated by the Congress to other priority areas. To ensure conservative estimates of net financial benefits, reductions in operating costs 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. In addition, all financial benefits are calculated in net present value terms. Our staff follow established policies and procedures in reporting financial benefits. Estimates must be based on independent 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 accomplishment reports. All accomplishment reports for financial benefits are documented and are 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 independent unit (Quality and Continuous Improvement) reviews all financial benefits and must approve benefits of \$100 million or more, which amounted to 95 percent of the total dollar value of benefits recorded in fiscal 2003. Additionally, our Office of Inspector General reviews all benefits of \$500 million or more.

Nine accomplishments accounted for nearly \$27.4 billion, or 77 percent, of our total financial benefits in fiscal 2003. Six of these accomplishments totaled \$25.1 billion. Table 2 lists selected major financial benefits for fiscal 2003 and describes the work contributing to financial benefits over \$500 million.

**Table 2: GAO's Selected Major Financial Benefits for Fiscal 2003 (Dollars in millions)**

Description	Amount
<b>Financial Benefits Exceeding \$1 Billion</b>	
<p><b>Updated the Consumer Price Index (CPI):</b> 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. The adjustments have resulted in, among other things, lower federal expenditures on programs like Social Security that use the CPI to calculate benefits.</p>	\$9,200
<p><b>Eliminated Medicaid's Upper Payment Limit Loophole:</b> 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 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.</p>	5,900
<p><b>Made Funds Available for Lighter-Weight Weapons Systems:</b> Identified the Crusader artillery system as a duplicative weapons system that was inconsistent with the Department of the Army's plans to transform itself into a light-weight combat force. The Department of Defense (DOD) terminated the Crusader program, resulting in costs avoided.</p>	3,900
<p><b>Reduced the Cost of Federal Housing Programs:</b> Improved management of the Department of Housing and Urban Development's unexpended balances resulting in the recapture of unobligated funds.</p>	3,400
<p><b>Reduced the Cost of the DOD's Services Acquisition Process:</b> Examined the acquisition practices of leading commercial companies and recommended a more strategic approach for acquiring services at DOD.</p>	1,700
<p><b>Avoided Costs Associated with an Increase in the Skilled Nursing Facilities Rate:</b> Determined that the Congress's increase in the nursing component of Medicare's daily rate for skilled nursing facilities had little effect on increasing the ratios of nursing staff to patients in these facilities. The nursing component increase expired on October 1, 2002, and despite arguments from the nursing facility industry, the nursing component increase has not been reinstated.</p>	1,000

Description	Amount
<b>Selected Financial Benefits between \$500 Million and \$1 Billion</b>	
<b>Recovered Supplemental Security Income (SSI) Overpayments:</b> Identified weaknesses in the Social Security Administration's (SSA) efforts to recover SSI overpayments that led to the development of SSA's automated reconciliation process.	\$990
<b>Reduced DOD's Implementation Risks and Purchase Costs for the Navy-Marine Corps Intranet:</b> Highlighted the need for various management controls related to the acquisition and implementation of the Navy-Marine Corps intranet. As a result, DOD modified the Navy-Marine Corps intranet contract and reduced contract amounts in fiscal 2002 and fiscal 2003, reduced program risks, and increased the likelihood that the program will be acquired and implemented successfully.	780
<b>Ensured Defense Emergency Response Funds are Better Targeted:</b> Identified millions of dollars in unobligated DOD Emergency Response funding, a portion of which the Congress rescinded or directed DOD to reallocate for other fund purposes.	517

Source: GAO.

Note: See page 14 and appendix 1 in our fiscal 2003 Performance and Accountability Report for a more complete explanation of financial benefits included in this table. This report can be viewed at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

**Other Benefits**

Many of the benefits that flow to the American people from our work cannot be measured in dollar terms. During fiscal 2003, we recorded a total of 1,043 other benefits. We documented 456 instances where federal agencies improved services to the public, 62 instances where information we provided to the Congress resulted in statu-

tory or regulatory changes, and 525 instances where agencies improved core business processes or governmentwide reforms were advanced. These actions spanned the full spectrum of national issues from securing information technology systems to improving the performance of state child welfare agencies. (See table 3 for a description of selected other benefits.)

**Table 3: GAO's Selected Major Nonfinancial (Other) Benefits in Fiscal 2003****GAO efforts that helped to change laws and/or regulations**

**Consolidated Appropriations Resolution, 2003, Pub. L. No. 108-7:** The law includes GAO's recommended language that the administration's competitive sourcing targets be based on considered research and sound analysis.

**Smallpox Emergency Personnel Protection Act of 2003, Pub. L. No. 108-20:** GAO's report on the National Smallpox Vaccination program highlighted volunteers' concerns about losing income if they sustained injuries from an inoculation. This statute provides benefits and other compensation to covered individuals injured in this way.

**Postal Civil Service Retirement System Funding Reform Act of 2003, Pub. L. No. 108-18:** Analyses performed by GAO and OPM culminated in the enactment of this law that reduces the USPS's pension costs by an average of \$3 billion per year over the next 5 years. The Congress directed that the first 3 years of savings be used to reduce USPS's debt and hold postage rates steady until fiscal 2006.

**Accountability of Tax Dollars Act of 2002, Pub. L. No. 107-289:** A GAO survey of selected non-CFO Act agencies demonstrated the significance of audited financial statements in that community. GAO provided legislative language that requires 70 additional executive branch agencies to prepare and submit audited annual financial statements.

**Emergency Wartime Supplemental Appropriations Act, 2003, Pub. L. No. 108-11:** GAO assisted congressional staff with drafting a provision that made available up to \$64 million to the Corporation for National and Community Service to liquidate previously incurred obligations, provided that the Corporation reports overobligations in accordance with the requirements of the Antideficiency Act.

**Intelligence Authorization Act for Fiscal Year 2003, Pub. L. No. 107-306:** GAO recommended that the Director of Central Intelligence report annually on foreign entities that may be using U.S. capital markets to finance the proliferation of weapons, including weapons of mass destruction, and this statute instituted a requirement to produce this report.

**GAO efforts that helped to improve services to the public**

**Strengthening the U.S. Visa Process as an Antiterrorism Tool:** Our analysis of the U.S. visa-issuing process showed that the Department of State's visa operations were more focused on preventing illegal immigrants from obtaining nonimmigrant visas than on detecting potential terrorists. We recommended that State reassess its policies, consular staffing procedures, and training program. State has taken steps to adjust its policies and regulations concerning the screening of visa applicants and its staffing and training for consular officers.

**Enhancing Quality of Care in Nursing Homes:** In a series of reports and testimonies since 1998, we found that, too often, residents of nursing homes were being harmed and that programs to oversee nursing home quality of care at the Centers for Medicare and Medicaid Services were not fully effective in identifying and reducing such problems. In 2003, we found a decline in the proportion of nursing homes that harmed residents but made additional recommendations to further improve care.



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***Making Key Contributions to Homeland Security:*** Drawing upon an extensive body of completed and ongoing work, we identified specific vulnerabilities and areas for improvement to protect aviation and surface transportation, chemical facilities, sea and land ports, financial markets, and radioactive sealed sources. In response to our recommendations, the Congress and cognizant agencies have undertaken specific steps to improve infrastructure security and improve the assessment of vulnerabilities.

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***Improving Compliance with Seafood Safety Regulations:*** We reported that when Food and Drug Administration (FDA) inspectors identify serious violations at seafood processing firms, it took FDA 73 days on average, well above its 15-day target. On the basis of our recommendations, FDA now issues warning letters in about 20 days.

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***Strengthening Labor's Management of the Special Minimum Wage Program:*** Our review of this program resulted in more accurate measurement of program participation and noncompliance by employees and prevented inappropriate payment of wages below the minimum wage to workers with disabilities.

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***Reducing National Security Risks Related to Sales of Excess DOD Property:*** We reported that DOD did not have systems and procedures in place to maintain visibility and control over 1.2 million chemical and biological protective suits and certain equipment that could be used to produce crude forms of anthrax. Unused suits (some of which were defective) and equipment were declared excess and sold over the Internet. DOD has taken steps to notify state and local responders who may have purchased defective suits. Also, DOD has taken action to restrict chemical-biological suits to DOD use only—an action that should eliminate the national security risk associated with sales of these sensitive military items. Lastly, DOD has suspended sales of the equipment in question pending the results of a risk assessment.

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***Protecting the Retirement Security of Workers:*** We alerted the Congress to potential dangers threatening the pensions of millions of American workers and retirees. The pension insurance program's ability to protect workers' benefits is increasingly being threatened by long-term, structural weaknesses in the private-defined, pension benefit system. A comprehensive approach is needed to mitigate or eliminate the risks.

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***Improving Mutual Fund Disclosures:*** To improve investor awareness of mutual fund fees and to increase price competition among funds, we identified alternatives for regulators to increase the usefulness of fee information disclosed to investors. Early in fiscal 2003, the Securities and Exchange Commission issued proposed rules to enhance mutual fund fee disclosures using one of our recommended alternatives.

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## GAO efforts that helped to promote sound agency and governmentwide management

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***Encouraging and Helping Guide Agency Transformations:*** We highlighted federal entities whose missions and ways of doing business require modernized approaches, including the Postal Service, GSA, and the Coast Guard. Among congressional actions taken to deal with modernization issues, the House Committee on Government Reform established a special panel on postal reform and oversight to work with the President's Commission on the Postal Service on recommendations for comprehensive postal reform. We also reported this year on the Coast Guard's ability to effectively carry out critical elements of its mission, including its homeland security responsibilities. We recommended that the Coast Guard develop a blueprint for targeting its resources to its various mission responsibilities and a better reporting mechanism for informing the Congress on its effectiveness. Our recommendations led to better reporting by the Coast Guard and laid the foundation for key revisions the agency intended to make to its strategic plan.

***Helping DOD Recognize and Address Business Modernization Challenges:*** Several times we have reported and testified on the challenges DOD faces in trying to successfully modernize about 2,300 business systems, and we made a series of recommendations aimed at establishing the modernization management capabilities needed to be successful in transforming the department. DOD has implemented some key architecture management capabilities, such as assigning a chief architect and creating a program office, as well as issuing the first version of its business enterprise architecture in May 2003. In addition, DOD has revised its system acquisition guidance. By implementing our recommendations, DOD is increasing the likelihood that its systems investments will support effective and efficient business operations and provide for timely and reliable information for decision making.

***Helping to Advance Major Information Technology Modernizations:*** Our work has helped to strengthen the management of the complex, multibillion-dollar information technology modernization program at the Internal Revenue Service (IRS) to improve operations, promote better service, and reduce costs. For example, IRS implemented several of our recommendations to improve software acquisition, enterprise architecture definition and implementation, and risk management and to better balance the pace and scope of the program with its capacity to effectively manage it.

***Improving Internal Controls and Accountability over Agency Purchases:*** Our work examining purchasing and property management practices at FAA identified several weaknesses in the specific controls and overall control environment that allowed millions of dollars of improper and wasteful purchases to occur. Such weaknesses also contributed to many instances of property items not being recorded in FAA's property management system, which allowed hundreds of lost or missing property items to go undetected. Acting on our findings, FAA established key positions to improve management oversight of certain purchasing and monitoring functions, revised its guidance to strengthen areas of weakness and to limit the allowability of certain expenditures, and recorded assets into its property management system that we identified as unrecorded.

**Strengthening Government Auditing Standards:** Our publication of the Government Auditing Standards in June 2003 provides a framework for audits of federal programs and monies. This comes at a time of urgent need for integrity in the auditing profession and for transparency and accountability in the management of scarce resources in the government sector. The new revision of the standards strengthens audit requirements for identifying fraud, illegal acts, and noncompliance, and gives clear guidance to auditors as they contribute to a government that is efficient, effective, and accountable to the people.

**Supporting Controls over DOD's Credit Cards:** In a series of reports and testimonies beginning in 2001, we highlighted pervasive weaknesses in DOD's overall credit card control environment, including the proliferation of credit cards and the lack of specific controls over its multibillion dollar purchase and travel card programs. We identified numerous cases of fraud, waste, and abuse and made 174 recommendations to improve DOD's credit card operations. DOD has taken many actions to reduce its vulnerabilities in this area.

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.

- To measure our effect on improving the government's accountability, operations, and services, we track the percentage of our past recommendations that were implemented by agencies or the Congress. In fiscal 2003, we determined that 82 percent of the recommendations we made 4 years ago had been implemented, primarily by executive branch agencies. This measure indicates, in part, that our recommendations were thoughtful and reasonable and will likely generate tangible benefits for the public now and in the future.
- Developing implementable recommendations is an important part of our work for the Congress because it helps to improve how the government functions. We encourage GAO staff to develop recommendations as part of their reviews, and we track the number of new recommendations made as well as the number of new products with recommendations even though all of our written products do not contain recommendations. In fiscal 2003, we made 2,175 new recommendations, and included recommendations in 55 percent of our written products (excluding testimonies).
- During fiscal 2003 executives from our staff testified at 189 congressional hearings—sometimes with very short notice—covering a wide range of complex issues (see page 19 for a summary of issues we testified on by strategic goal). Testimony is one of our most important forms of communications with the Congress, and the number of hearings at which we testify reflects, in part, the importance and value of our expertise and experi-

ence in various program areas and our assistance with congressional decisionmaking.

- The likelihood that our products will be used is enhanced if they are delivered when needed to support congressional and agency decisionmaking. In fiscal 2003, we completed the vast majority of our congressionally requested and self-initiated products—97 percent—on time.

On the pages that follow our selected list of testimonies, we highlight our performance under each of our strategic goals and the strategies and challenges involved in achieving those goals—including the management challenges and external factors we face. We also summarize how we used our resources in fiscal 2003, including our costs by strategic goal.

# SELECTED ISSUES ON WHICH GAO TESTIFIED DURING FISCAL 2003



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

Nursing home quality	Foster care management	Coast Guard transformation
VA health care challenges	Teacher training	Postal Service transformation
Medicare fiscal challenges	Research on Head Start's effectiveness	Highway safety
SARS	Changes to VA's Disability Criteria	FAA reauthorization
Bioterrorism preparedness	Unemployment insurance	Restoring South Florida ecosystem
Social Security pension loophole	Workforce Investment Act	Handling invasive species
Risks facing PBGC's single-employer pension program	FBI reorganization	Postal Service anthrax testing
Social Security reform	Transportation for the disadvantaged	Social Security disability reviews

## GOAL 2 Changing Security Threats and Challenges of Globalization

Combating terrorism	Nuclear security challenges
Chemical and biological terrorism	Border security technology
DOD human capital reforms	Agriculture's debt collection challenges
Major weapons systems	Gulf War illnesses
Modernizing DOD's business systems	Preparing financial markets for terrorism
Conditions of overseas diplomatic facilities	Rightsizing U.S. overseas presence
Russia's nonproliferation program	Mutual funds
Customs radiation detection devices	

## GOAL 3 Transforming the Federal Government's Role

Federal government restructuring efforts	Paid tax preparer services
Federal paperwork burden	Federal sourcing and acquisition
Federal performance management systems	Strategies to address the federal government's improper payments
Implementing the President's Management Agenda	Government credit card vulnerabilities
Fragmented federal grant system	Governmentwide financial management reforms
Performance budgeting	OMB's E-government initiatives
Effective use of federal funds	

# Goal 1

Goal 1's Cost: \$186.4 Million

39% of GAO's Total



Goal 1

Goal 2

Goal 3

Goal 4

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

## Results

### \$23.6 billion in financial benefits

- Recommended that expenditure weights for the Consumer Price Index be updated biannually, \$9.2 billion
- Identified a Medicaid loophole that was subsequently closed, \$5.9 billion
- Improved the Department of Housing and Urban Development's (HUD) management of unexpended balances, \$3.4 billion
- Determined that increased Medicare payments to skilled nursing facilities had little effect on nurse/patient ratios, \$1 billion
- Recovered overpayments in the Supplemental Security Income (SSI) program, \$990 million
- Contained federal disability insurance costs, \$600 million
- Additional financial benefits, \$2.5 billion

### 217 other benefits

- Helped ensure the effectiveness of the smallpox vaccination program
- Recommended steps that financial regulators could take to fully recover from the September 11 attacks
- Advised transportation officials in many transportation modes on developing safety and security plans and strategies
- 214 additional benefits

### 557 new recommendations made

- Ensure effective implementation of the No Child Left Behind Act
- Improve financial accountability at the Small Business Administration
- Increase training for food inspection personnel
- 554 additional improvements recommended

### 80 testimonies

- Child welfare
- Severe Acute Respiratory Syndrome (SARS)
- Transportation security
- FBI reorganization
- Nuclear waste cleanup
- 75 additional hearings on topics of national importance

# Goal 2

Goal 2's Cost: \$122.0 Million 26% of GAO's Total



Goal 1

Goal 2

Goal 3

Goal 4

Changing security  
threats and challenges  
of globalization

Results

### \$7.1 billion in financial benefits

- Identified duplicative efforts that resulted in terminating the Army Crusader program, \$3.9 billion
- Improved targeting of the Department of Defense's (DOD) emergency funds, \$517 million
- Additional financial benefits, \$2.68 billion

### 273 other benefits

- Helped to address challenges in constructing and implementing the Department of Homeland Security
- Improved military recruitment
- Increased knowledge of AIDS in Africa and other parts of the world
- Strengthened U.S. efforts to help other countries combat nuclear smuggling
- Improved security of nuclear weapons and radioactive sealed sources
- 268 additional benefits

### 846 new recommendations

- Improve contract management in the space program
- Better align military forces to ensure that missions are effectively carried out while maintaining military readiness of participating forces
- Strengthen the U.S. visa process as an antiterrorism tool
- Improve collaboration among states to increase security of sealed radioactive sources
- 842 additional improvements recommended

### 48 testimonies

- Condition of overseas diplomatic facilities
- Chemical and biological defense
- Combating terrorism
- Security and safety of Americans at home and abroad
- 44 additional hearings on matters of national importance

# Goal 3

Goal 3's Cost: \$144.9 Million

31% of GAO's Total



Transforming the  
federal government's role

## Results

### \$4.7 billion in financial benefits

- Identified best practices in acquiring defense services, \$1.7 billion
- Modified funding of the Navy Marine Corps Intranet to allow implementation of management controls, \$779.9 million
- Additional financial benefits, \$2.2 billion

### 553 other benefits

- Helped agencies improve audits of purchase card programs
- Assessed the risks of major weapons system acquisitions
- Strengthened government auditing standards
- Improved border security information sharing and U.S. border protection
- Reduced national security risks related to sales of excess DOD property
- 548 additional benefits

### 772 new recommendations made

- Contribute to congressional oversight of the administration of the income tax system
- Improve agency operations through human capital reforms at DOD, DHS, and across government
- 770 additional improvements recommended

### 56 testimonies

- Human capital
- Performance budgeting
- Government purchase cards
- Financial management weaknesses
- 52 additional hearings on topics of national importance



# Goal 4

Goal 4's Cost: \$20.0 Million

4% of GAO's Total



Goal 1

Goal 2

Goal 3

Goal 4

Maximize the value of GAO

Results

## **Sharpened focus on clients' and customers' requirements**

- Developed agency and international protocols
- Developed external Web site for background material on key issues and concerns

## **Enhanced leadership and promote management excellence**

- Increased the security of our facilities and information systems
- Maintained integrity in financial management
- Continued to provide leadership in human capital strategy and management
- Increased search functions on external Web site

## **Leveraged institutional knowledge and experience**

- Improved management of agency records
- Continued knowledge-sharing among our organizational units
- Increased capacity through knowledge-sharing and collaboration

## **Continuously improved business and management processes**

- Improved guidance and tracking for our engagements
- Expanded use of "highlights" page to encapsulate information from our products on a single page
- Donated excess computer equipment to schools

## **Enhanced our position as an employer of choice**

- Developed new training curriculum for analysts
- Implemented training and learning programs to employees' desktop computers through new software
- Launched new external employment opportunities Web site

# GAO's High-Risk Program

Issued to coincide with the start of each new Congress, our high-risk update lists 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.<sup>2</sup> 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. Our high-risk areas also include challenges faced by government programs and operations in need of broad-based transformations.

Our high-risk program, which we began in 1990, includes five high-risk areas added in 2003:

- Implementing and transforming the new Department of Homeland Security;
- Modernizing federal disability programs;

- Federal real property;
- Medicaid program; and
- Pension Benefit Guaranty Corporation's (PBGC) single-employer pension insurance program.<sup>3</sup>

In fiscal 2003, we also removed the high-risk designation from two programs: SSA's SSI program and the Asset Forfeiture programs administered by the U.S. Departments of Justice and the Treasury after all three agencies took significant actions to address instances of abuse, mismanagement, and lax accountability practices.

In fiscal 2003, we issued 208 reports and delivered 112 testimonies related to high-risk areas, and our work has resulted in financial benefits totaling almost \$21 billion.

To learn more about our work on the high-risk areas shown in table 4 or to download the update in full, go to [www.gao.gov/pas/2003/](http://www.gao.gov/pas/2003/).

<sup>2</sup>U.S. General Accounting Office, *High Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

<sup>3</sup>We added this issue in July 2003 after we published the January 2003 update.

**Table 4: GAO's 2003 High-Risk List**

<b>2003 High-Risk Areas</b>	<b>Year Designated High Risk</b>
<b>Addressing Challenges In Broad-based Transformations</b>	
Strategic Human Capital Management <sup>a</sup>	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook <sup>a</sup>	2001
Protecting Information Systems Supporting the Federal Government and the Nation's Critical Infrastructures	1997
Implementing and Transforming the new Department of Homeland Security	2003
Modernizing Federal Disability Programs <sup>a</sup>	2003
Federal Real Property <sup>a</sup>	2003
<b>Ensuring Major Technology Investments Improve Services</b>	
FAA Air Traffic Control Modernization	1995
IRS Business Systems Modernization	1995
DOD Systems Modernization	1995
<b>Providing Basic Financial Accountability</b>	
DOD Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
IRS Financial Management	1995
<b>Reducing Inordinate Program Management Risks</b>	
Medicare Program <sup>a</sup>	1990
Medicaid Program <sup>a</sup>	2003
Earned Income Credit Noncompliance	1995
Collection of Unpaid Taxes	1990
DOD Support Infrastructure Management	1997
DOD Inventory Management	1990
HUD Single-Family Mortgage Insurance and Rental Assistance Programs	1994

	<b>Year Designated High Risk</b>
<b>2003 High-Risk Areas</b>	
Student Financial Aid Programs	1990
PBGC Single-Employer Insurance Program <sup>a</sup>	2003
<b>Managing Large Procurement Operations More Efficiently</b>	
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
NASA Contract Management	1990

Source: GAO.

<sup>a</sup>Additional authorizing legislation is likely to be required as one element of addressing this high-risk area.

## 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 differ from theirs in that ours are often more strategic and longer-range in nature, governmentwide or multiagency in scope, and initiated by requests from the Congress.

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

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

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

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

Through a series of forums, advisory boards, and panels, and a newly established speakers' series, we gather information and perspectives for our strategic and annual performance planning efforts. In fiscal 2003, the Comptroller General convened various experts from the public and private sectors in a series of forums and panels intended to enhance our understanding of emerging issues and to identify opportunities for action:

- In November 2002, we issued a report that summarized the findings of a forum entitled *Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*.
- In December 2002, we convened a corporate governance forum to discuss challenges facing regulators, the accounting profession, and boards of

directors in improving public confidence in U.S. corporate governance and accountability systems.

- In February 2003, we and the National Academies hosted a forum with national leaders and experts on key national indicators. Among other things, forum participants (1) examined how the world's leading democracies measure national performance and (2) explored what the United States might do to improve its approach.

In fiscal 2003, we also worked with a number of issue-specific and technical panels to improve our strategic and work planning, including the Advisory Council on Government Auditing Standards which played a significant role in helping us to update auditing standards and revise the June 2003 *Government Auditing Standards* known by many as the "Yellow Book" ([www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm)); the Accountability Advisory Council that advised us on audits of the U.S. government's consolidated financial statements and emerging financial management issues and provided invaluable insights as we performed our corporate governance studies mandated by the Sarbanes-Oxley legislation; the 19-member Council on Information Management and Technology that met in May to discuss current and emerging high-risk issues and whose dialog will help support ongoing and planned work in the our high risk and IT areas; and the Comptroller General's Educators' Advi-

sory Panel that advised us in June of this year on recruiting, retaining, and developing staff at GAO as well as other strategic planning issues.

Internationally, we participate in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of the national audit offices of 184 countries. During fiscal 2003, we led a 10-nation task force to develop a 5-year strategic plan—the first in INTOSAI’s 50-year history. The plan’s framework was approved at the October 2002 Governing Board meeting and will be circulated to all INTOSAI members for comment and approval in 2004. The Comptroller General also leads the Auditor General Global Working Group, in which the heads of our counterparts from 15 countries meet annually to discuss mutual challenges, share experiences, and identify opportunities for collaboration with each other. The 2003 meeting featured a joint session with Office of Economic Cooperation and Development budget officials on long-range fiscal challenges and an initiative in which members will participate in peer reviews of each others’ audit institutions.

In addition, our staff collaborated with principals of the Joint Financial Management Improvement Program to foster financial management reform governmentwide; the Federal Accounting Standards Advisory Board to help establish generally accepted accounting princi-

ples for the federal government; the President’s Council on Integrity and Efficiency (PCIE) to help update and publish a Joint Financial Audit Manual ([www.gao.gov/special.pubs/FAM/index.html](http://www.gao.gov/special.pubs/FAM/index.html)); the Private Sector Council which assisted a GAO team with its review of “best practices” used by private sector companies to prepare for disastrous events while maintaining operations; a group of state and federal inspectors general to develop a guide for evaluating security efforts within the nation’s transportation system; and with Department of Veterans’ Affairs Office of Inspector General on a joint investigation of alleged irregularities in contract administration.

### *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 our progress in completing the key efforts for those performance goals quarterly, and report whether the performance goals have been met or not met at 2-year intervals. We have also asked our Office of Inspector General to examine man-

agement's assessment of the challenges and the agency's progress in addressing them.

In fiscal 2003, we had three major management challenges. We have reported in the past on our efforts to address two of these challenges—human capital and physical security. Although we have made progress with both of these challenges, we still have work to do. The third challenge, information security, was added in fiscal 2003. This challenge replaced a previous IT challenge because we had completed our work on that original management challenge. However, independent reviews of our information security program indicated that we needed to further tighten IT security. Moreover, the potential for harm and threats to IT systems and information assets has never been greater, nor has there ever been a greater need for planning for disaster recovery and continuity of operations given continuing terrorist threats and events.

### *The Human Capital Challenge*

Given our role as a key provider of information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. We spend about 80 percent of our resources on our people, but without excellent human capital management, we could run the risk of being unable to meet the expectations of the Congress and the nation. However, we are continuing to make significant

improvements in our human capital management. During fiscal 2003, we developed our first formal and comprehensive strategic plan for human capital. The purpose of the plan is to communicate both internally and externally GAO's 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. GAO expects to publish the plan early in fiscal 2004 and make it available on GAO's Web site. We also fully implemented our workforce planning process, addressing the size, deployment, and profile of our staff to ensure we have the appropriate resources strategically placed to pursue our goals and objectives now and in the future.

We also built on our fiscal 2002 accomplishments in attracting and retaining a diverse workforce with the knowledge, skills, and abilities to meet the new century's challenges. We expanded the scope of our college recruiting and hiring program to focus on gaps identified during our workforce planning effort. To promote the retention of staff with critical skills and 1 to 3 years of GAO experience, we continued to utilize recent legislation (5 U.S.C. 5379) authorizing federal agencies to offer student loan repayments in exchange for commitments to federal service. In accordance with Office of Personnel Management regulations, we disbursed repayments of between \$4,000 and \$6,000 directly to



lending institutions during fiscal 2003 for 247 employees, each of whom signed a 3-year agreement to continue working at GAO.

Finally, we have requested that the Congress enact additional human capital legislation for us that would, among other things, (1) make permanent our 3-year authority to offer early outs and buyouts and (2) allow us to set our own annual pay adjustment system separate from the executive branch.

#### *The Physical Security Challenge*

In the aftermath of the September 11 terrorists attacks, subsequent anthrax incidents, and the recent 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 have devoted additional resources to this area and have implemented measures, such as upgrading the headquarters fire alarm system and installing a parallel emergency notification system. We have also designed several security enhancements to be installed in fiscal 2004, such as 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 comprised of intrusion detection, access control, and closed-circuit surveillance systems. We have made great progress in enhancing our communication with staff. We distributed a Shel-

ter in Place plan, provided Emergency Preparedness briefings for staff, and conducted the third annual Security Fair to disseminate information on security at the workplace and at home. We drafted an Emergency Response Handbook for headquarters occupants. To further increase the security of the headquarters building, we have obtained access to the National Crime Information Center Database to conduct minimal investigations on visitors, vendors, couriers, and non-GAO employees entering the building. To ensure our continuity of operations should GAO have to vacate its headquarters due to an emergency, we made arrangements for an alternate facility to house our operations. Finally, we completed a study of personal protective equipment and based on the resulting decision paper, we have purchased escape hoods, bottled water, and glow sticks. Staff will be trained in the use of this equipment during fiscal 2004.

#### *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 underway to strengthen and protect the security of our information systems and data. Our information security plan is in

appendix 4. As part of our continuing disaster recovery efforts and emergency preparedness plan, we upgraded the level of telecommunications services between our disaster recovery site and headquarters, expanding our remote connectivity capability, and improving response time and transmission speed. To further protect our data and resources, we drafted an update to our Information Systems Security Policy, issued network user policy statements, implemented hardware and software upgrades to harden our internal network security, significantly expanded our efforts in intrusion detection, and addressed concerns raised during the most recent network vulnerability assessment. Furthermore, we deployed computer software to our senior management that provides authoritative and timely assurance that critical e-mail has been received intact—without changes or modifications.

### *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 of our strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways:

- We are alert to possibilities that could shift the Congress's and, therefore, our priorities.
- We continue to identify in our products and meetings with the Congress conditions that could trigger new priorities.
- We quickly redirect our resources, when appropriate, so that we can deal with major changes that do occur.
- We maintain broad-based staff expertise so that we can readily address emerging needs.
- 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 2003 Performance Goals

Our financial statements for fiscal 2003 received an unqualified opinion from an independent auditor. The auditor found our internal controls to be effective with no material weaknesses identified, and the auditor reported substantial compliance with the requirements in the Federal Financial Management Improvement Act of 1996 for financial systems. The auditor also found no instances of non-compliance with the laws or regulations in the areas tested. The condensed financial statements, along with the auditor's

report, appear on pages 41 to 46 of this report. Table 5 summarizes key financial data.

Compared with the statements of large and complex agencies in the executive branch, our statements present a relatively simple picture of a small agency in the legislative branch that focuses most of its financial activity on the execution of its congressionally approved budget with most of its resources devoted to the human capital needed for its mission of supporting the Congress with information and analysis.

**Table 5: GAO's Financial Highlights: Resource Information**

(Dollars in millions)

	Fiscal 2002	Fiscal 2003
Total budgetary resources	\$442.6	\$474.3
Total outlays	\$427.8	\$451.3
Net cost of operations		
Goal 1: Well-being and financial security of the American people	\$178.3	\$186.4
Goal 2: Changing security threats and challenges of globalization	110.5	122.0
Goal 3: Transforming the federal government's role	141.0	144.9
Goal 4: Maximizing the value of GAO	25.3	20.0
Less reimbursable services not attributable to goals	(2.1)	(2.2)
Total net cost of operations <sup>a</sup>	\$453.0	\$471.1
Actual full-time equivalents	3,210	3,269

Source: GAO.

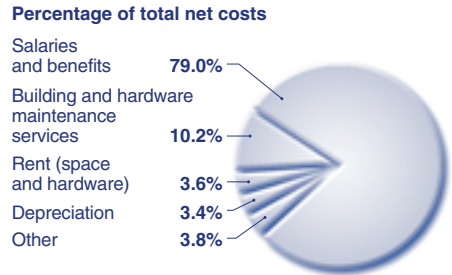
<sup>a</sup>The net cost of operations figures include nonbudgetary items, such as imputed pension and depreciation costs, which are not included in the figures for total budgetary resources or total outlays.

Our budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. For fiscal 2003, our total budgetary resources of \$474.3 million increased by \$32 million from fiscal 2002. This increase consists primarily of funds needed to cover mandatory and uncontrollable costs and \$4.8 million for nonrecurring enhancements for the safety and security of our staff.

Our total assets were \$128.2 million, consisting mostly of property and equipment (including the headquarters building, land and improvements, and computer equipment and software) and funds with the Treasury. The major change in our assets was in funds with the Treasury, which increased in fiscal 2003 because of differences from the prior year-end in the timing of payments. Total liabilities of \$85.6 million were composed largely of employees' accrued annual leave, amounts owed to other government agencies, accounts payable, and workers' compensation liability. The greatest changes in the liabilities were made up of decreases in both accounts payable and deferred lease revenue. The decrease in accounts payable is a result of the timing of payments made on several large contracts. In fiscal 2003, we amortized the remaining balance of deferred lease revenue liability as rental credits to the U.S. Army Corps of Engineers that rents space in the GAO headquarters building.

The net cost of operating GAO during fiscal 2003 was approximately \$471 million. As shown in figure 1, expenses for salaries and related benefits accounted for 79 percent of our net cost of operations in fiscal 2003.

**Figure 1: Use of Funds by Category**



Source: GAO.

We report net cost of operations according to our four strategic goals, consistent with our strategic plan. Activities in goals 1 and 2 were responsible for most of the increase in our net cost of operations between fiscal 2002 and fiscal 2003. Goal 1 saw an increase due to expanded efforts in the area of education, workforce, and income security. In goal 2 additional resources were focused on issues in the area of military capabilities and readiness. Goal 4 costs show a decrease from fiscal 2002 to fiscal 2003 primarily as a result of completing one-time security and relocation projects in 2002.

Figures 2 and 3 show our net costs by goal for fiscal 2000 through fiscal 2003. Figure 2 shows the costs unadjusted for

inflation, while figure 3 shows the same costs in 2003 dollars, that is, adjusted for inflation.

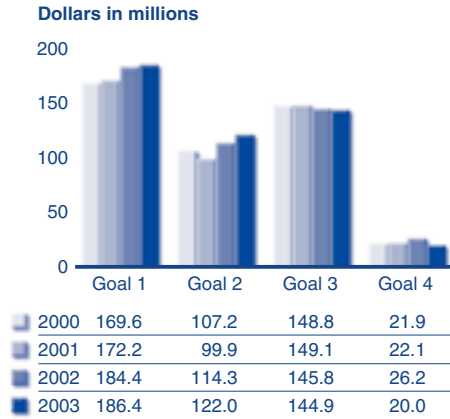
As these figures indicate, our first goal, under which we organize our work on challenges to the well-being and financial security of the American people, accounted for the largest share of the costs. We expect this goal to continue to represent the largest share of our costs.

**Figure 2: Net Costs by Goal, Unadjusted**



Source: GAO.

**Figure 3: Net Costs 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. The committee’s report for fiscal 2003 appears in Part III of this report after our financial statements and accompanying notes. 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; Vice President for

Administration and Finance of Virginia State University; former State Comptroller of Virginia; and a former Controller of the Office of Federal Financial Management in OMB.

- Charles O. Rossotti, a former Commissioner of the Internal Revenue Service and co-founder of American Management Systems, Inc., an international business and information technology consulting firm.

### *Planned Resources to Achieve Our Fiscal 2004 Performance Goals*

We have received budget authority of \$466.3 million for fiscal 2004 to maintain current operations for serving the Congress as outlined in our strategic plan and to continue initiatives to enhance our human capital; support business processes; and ensure the safety and security of our staff, facilities, and information systems. This funding level will allow us to maintain our authorized level of 3,269 full-time equivalent (FTE) personnel. Our resources include \$460.3 million in direct appropriations and estimated revenue of \$6 million from reimbursable audit work and rental income. Our fiscal 2004 resources represent a modest 2 percent increase over fiscal 2003 resources—primarily for mandatory pay and uncontrollable costs. Savings from nonrecurring fiscal 2003 investments will help offset needed funds for further investments in critical

areas, such as security and human capital.

Table 6 provides an overview of how our budgetary and human capital resources will be allocated among our four strategic goals.

During fiscal 2004, we plan to sustain our investments in maximizing the productivity of our workforce by continuing to address key management challenges: human capital and information and physical security. We will continue to take steps to “lead by example” within the federal government in connection with these and other critical management areas. On the human capital front, to ensure our ability to attract, retain, motivate, and reward high-quality staff, we plan to devote additional resources to our employee training and development program. We will target resources to continue initiatives to address skill gaps, maximize staff productivity, and increase staff effectiveness by updating our training curriculum to address organizational and technical needs and training new staff. Also, to enhance our recruitment and retention of staff, we will continue to offer the student loan repayment program and transit subsidy benefit established in fiscal 2002. In addition, we will continue to focus our hiring efforts in fiscal 2004 on recruiting talented entry-level staff.

On the information security front, in fiscal 2004, we plan to implement tools

that will ensure a secure environment, detect intruders in our systems, identify appropriate users, and recover in the event of a disaster. We plan to apply additional intrusion-detection software to our internal servers and complete our disaster recovery plan.

We are continuing to make the investments necessary to enhance the safety and security of our people, facilities, and other assets for the mutual benefit of GAO and the Congress. In fiscal 2004, we plan to complete the installation of our building access control and intru-

sion-detection system and supporting infrastructure and provide life-safety devices.

In addition, we plan to continue initiatives designed to further increase employees' productivity, facilitate knowledge-sharing, maximize the use of technology, and enhance employee tools available at the desktop. We also will continue to devote resources to reengineer the information technology (IT) systems that support business processes, such as our engagement tracking system and our human capital operations.

**Table 6: Fiscal 2004 Budgetary Resources by Strategic Goal**

(Dollars in millions)

Strategic goal	Full-time equivalent staff	Amount
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.	1,236	\$177.1
Goal 2		
Provide timely, quality service to the Congress and the federal government to respond to changing threats and the challenges of global interdependence.	920	131.8
Goal 3		
Help transform the federal government's role and how it does business to meet 21 <sup>st</sup> century challenges.	967	138.6
Goal 4		
Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	146	18.7
<b>Total</b>	<b>3,269</b>	<b>\$466.3</b>

Source: GAO.

Note: Numbers do not total due to rounding.



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# *Financial Management Accountability*

Our condensed financial statements begin on page 41. Our financial statements for the fiscal years ended September 30, 2003 and 2002, were audited by an independent auditor, Cotton & Co., LLP and received an unqualified opinion. (See Part III of our fiscal 2003 Performance and Accountability Report for our complete financial statements and accompanying notes at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).)

## *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 our internal controls through a series of comprehensive internal reviews, applying the evaluation criteria in the Office of Management and Budget's (OMB) guidance for implementing the Integrity Act. We assessed our internal controls as of September 30, 2003,

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, 2003, we have effective internal controls in place and no outstanding material weaknesses.

In addition, we are committed to fulfilling the objectives of the Federal Financial Management 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, 2003.

Our Office of Inspector General (IG) also conducts audits and investigations and functions as an independent fact-gathering adviser to the Comptroller General. There are nine open recommendations and management is in agreement with these recommendations and plans to take action on them. There are no unresolved issues.

## *Limitations on Financial Statements*

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in

the fiscal 2003 *Performance and Accountability 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. The statements in this Highlights report are condensed from the full statement presentation and do not include the related footnotes.

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. General Accounting Office**  
**Condensed Balance Sheet**  
**As of September 30, 2003 and 2002**  
(Dollars in Thousands)

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Intragovernmental assets including funds with the U.S.		
Treasury	\$69,888	\$62,442
Property and equipment, net	57,928	63,888
Other	414	486
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<u>\$128,230</u>	<u>\$126,816</u>
<b>Liabilities</b>		
Intragovernmental liabilities	\$11,127	\$16,845
Accounts payable and salaries and benefits	23,283	23,227
Accrued annual leave and other	30,415	29,357
Workers' compensation	11,093	12,331
Capital leases	9,647	9,968
	<u>          </u>	<u>          </u>
<b>Total Liabilities</b>	<u>85,565</u>	<u>91,728</u>
<b>Net Position</b>		
Unexpended appropriations	40,327	29,925
Cumulative results of operations	2,338	5,163
	<u>          </u>	<u>          </u>
<b>Total Net Position</b>	<u>42,665</u>	<u>35,088</u>
	<u>          </u>	<u>          </u>
<b>Total Liabilities and Net Position</b>	<u>\$128,230</u>	<u>\$126,816</u>

**U.S. General Accounting Office**  
**Condensed Statement of Net Cost**  
**For Fiscal Years Ended September 30, 2003 and 2002**  
(Dollars in Thousands)

	<u>2003</u>	<u>2002</u>
<b>Net Costs by Goal</b>		
Goal 1: Well-Being/Financial Security of American People	\$186,443	\$178,381
Goal 2: Changing Security Threats/Challenges of Global Interdependence	121,975	110,537
Goal 3: Transforming the Federal Government's Role	144,861	140,967
Goal 4: Maximize the Value of GAO	19,982	25,278
Less: reimbursable services not attributable to goals	<u>(2,153)</u>	<u>(2,128)</u>
<b>Net Cost of Operations</b>	<u><u>\$471,108</u></u>	<u><u>\$453,035</u></u>

**U.S. General Accounting Office**  
**Condensed Statement of Changes in Net Position**  
**For Fiscal Years Ended September 30, 2003 and 2002**  
(Dollars in Thousands)

	<u>2003 Cumulative Results of Operations</u>	<u>2003 Unexpended Appropriations</u>	<u>2002 Cumulative Results of Operations</u>	<u>2002 Unexpended Appropriations</u>
<b>Balances, Beginning of Fiscal Year</b>	\$5,163	\$29,925	\$15,349	\$21,258
<b>Budgetary Financing Sources</b>				
Current year appropriations	-	453,051	-	421,844
Appropriations used	441,097	(441,097)	419,046	(419,046)
Other	-	(1,552)	-	5,869
<b>Other Financing Sources</b>				
Employee benefit costs imputed to GAO	24,757	-	21,007	-
Other	<u>2,429</u>	<u>-</u>	<u>2,796</u>	<u>-</u>
<b>Total Financing Sources</b>	468,283	10,402	442,849	8,667
<b>Net Cost of Operations</b>	<u>(471,108)</u>	<u>-</u>	<u>(453,035)</u>	<u>-</u>
<b>Balances, End of Fiscal Year</b>	<u>\$2,338</u>	<u>\$40,327</u>	<u>\$5,163</u>	<u>\$29,925</u>

**U.S. General Accounting Office**  
**Condensed Statement of Budgetary Resources**  
**For Fiscal Years Ended September 30, 2003 and 2002**  
(Dollars in Thousands)

	<u>2003</u>	<u>2002</u>
<b>Budgetary Resources</b>		
Current year appropriations	\$453,051	\$421,844
Transfers of budget authority	-	7,600
Unobligated appropriations, beginning of fiscal year	14,198	7,512
Reimbursements	<u>7,100</u>	<u>5,687</u>
<b>Total Budgetary Resources</b>	<u><u>\$474,349</u></u>	<u><u>\$442,643</u></u>
<b>Status of Budgetary Resources</b>		
Obligations incurred	\$453,902	\$426,714
Unobligated appropriations, end of fiscal year	18,895	14,198
Lapsed budget authority	<u>1,552</u>	<u>1,731</u>
<b>Total Status of Budgetary Resources</b>	<u><u>\$474,349</u></u>	<u><u>\$442,643</u></u>
<b>Relationship of Obligations to Outlays</b>		
Obligations incurred	\$453,902	\$426,714
Obligated balance, net - beginning of fiscal year	47,856	48,970
Less: Obligated balance, net - end of fiscal year	<u>(50,487)</u>	<u>(47,856)</u>
<b>Total Outlays</b>	<u><u>\$451,271</u></u>	<u><u>\$427,828</u></u>
<b>Outlays</b>		
Disbursements	\$451,271	\$427,828
Collections	<u>(7,100)</u>	<u>(5,687)</u>
<b>Net Outlays</b>	<u><u>\$444,171</u></u>	<u><u>\$422,141</u></u>

**U.S. General Accounting Office**  
**Condensed Statement of Financing**  
**For Fiscal Years Ended September 30, 2003 and 2002**  
(Dollars in Thousands)

	<u>2003</u>	<u>2002</u>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$453,902	\$426,714
Less: Reimbursements	<u>(7,100)</u>	<u>(5,687)</u>
Net Obligations	<u>446,802</u>	<u>421,027</u>
<b>Other Resources</b>		
Employee benefit costs imputed to GAO	24,757	21,007
Other	<u>2,429</u>	<u>2,796</u>
Net other resources used to finance activities	<u>27,186</u>	<u>23,803</u>
<b>Total resources used to finance activities</b>	<b>473,988</b>	<b>444,830</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net increase in unliquidated obligations	(5,705)	(1,980)
Costs capitalized on the balance sheet	<u>(14,304)</u>	<u>(13,180)</u>
Total resources used to finance items not part of the net cost of operations	<u>(20,009)</u>	<u>(15,160)</u>
<b>Total resources used to finance the net cost of operations</b>	<b>453,979</b>	<b>429,670</b>
<b>Components That Generate/Require Resources in Future Periods</b>		
(Increase)/Decrease in Workers' Compensation, Accrued Annual Leave, and Other Liabilities	(341)	6,213
<b>Costs That Do Not Require Resources</b>		
Depreciation	<u>17,470</u>	<u>17,152</u>
<b>Net Cost of Operations</b>	<u><u>\$471,108</u></u>	<u><u>\$453,035</u></u>

# Independent Auditor's Report



DAVID L. COTTON, CPA, CFE, CGFM • CHARLES HAYWARD, CPA, CFE, CISA • MICHAEL W. GILLESPIE, CPA, CFE • CATHERINE L. NOCERA, CPA, CISA

MATTHEW H. JOHNSON, CPA, CGFM • SAM HADLEY, CPA, CGFM • COLETTE Y. WILSON, CPA • ALAN ROSENTHAL, CPA • LOREN SCHWARTZ, CPA, CISA

## INDEPENDENT AUDITOR'S REPORT

Cotton & Company LLP audited the General Accounting Office's (GAO) Balance Sheets as of September 30, 2003 and 2002, 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 3, 2003, we stated that we found:

- The 2003 and 2002 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, 2003,
- 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 audits 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 system 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, 2003. 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 3, 2003



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# From the Inspector General



## Memorandum

**Date:** October 21, 2003  
**To:** Comptroller General  
**From:** Inspector General – Frances Garcia *Francis*  
**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 2003 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 performance measures and found them to be reasonable.

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