

# GAO

COMPTROLLER

GENERAL'S

1991

ANNUAL

REPORT



UNITED  
STATES  
GENERAL  
ACCOUNTING  
OFFICE

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GAO  
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1990/91

## GAO's Mission

*We seek to achieve honest, efficient management and full accountability throughout government. We serve the public interest by providing members of Congress and others who make policy with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the security and well-being of the American people.*

### On the Covers

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1. As part of GAO's work on U.S. weapon systems, staff from the Atlanta Regional Office examine a Patriot missile launcher at the U.S. Army Missile Command in Huntsville, Alabama.

2. The front entrance of the historic Pension Building—now home of the National Building Museum—in Washington, D.C. GAO was headquartered at the site until 1951, and still holds special functions there.

3. This year, GAO examined the rising costs and precarious financial condition of medical trauma centers. Here, Detroit Regional Office staff visit the trauma unit at the Washington Hospital Center.

4. Staff from the National Security and International Affairs, General Government, and Information Management and Technology Divisions examine the Defense Department's Aerostat Radar Station, part of its drug surveillance effort in Cudjoe Key, Florida.

5. GAO headquarters in Washington, D.C.

6. The U.S. Capitol dome.

7. Judy England-Joseph of the Resources, Community, and Economic Development Division (RCED) testifies on energy matters before the Congress. With her is Rick Hale, also of RCED.

8. New York Regional Office staff visit the New York Stock Exchange during GAO's study of how stock markets can better control the security of their automated systems and trading floors.

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# A MESSAGE FROM THE COMPTROLLER GENERAL

In 1991, U.S. policymakers faced extraordinary challenges. War in the Persian Gulf, upheaval in the Soviet Union, uncertainty in the financial services industry, runaway increases in the cost of health care, unabated growth in the federal budget deficit—these and other events and conditions made it more urgent than ever for policymakers to respond effectively to the issues.

The General Accounting Office continued to pursue its mission to “achieve honest, efficient management and full accountability throughout government.” From housing to foreign aid, from the drug war to veterans’ affairs, there was hardly an area of federal concern in which GAO was not called upon to assist the Congress. How federal agencies performed, and how their performance might be made more productive and cost-effective, was the focus of audits and evaluations of such agencies as the IRS, the Department of Energy, the Immigration and Naturalization Service, and the Social Security Administration.

During fiscal year 1991, GAO produced 1,381 audit and evaluation products, including 950 reports to the Congress and agency officials, 154 formal congressional briefings, and 277 pieces of congressional testimony delivered by 57 GAO executives. GAO also produced hundreds of legal decisions.

GAO’s work continued to make a difference in the way government operates. By the end of the year, federal agencies had implemented three-quarters of the recommendations GAO had made four years earlier. And in 1991, GAO made 1,652 new ones. In addition, GAO’s work contributed to many actions in 1991 by the Congress or the executive branch to more effectively use scarce federal funds. These measurable financial benefits (including budget reductions, cost avoidances, appropriations deferrals, and revenue enhancements) stemming from GAO’s work totaled more



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than \$33 billion, a new high for GAO.

Many important GAO contributions cannot easily be measured in dollars. In 122 cases this year, GAO recommendations led to improvements in government operations and services to which a price tag could not be attached. For example, GAO helped decision-makers address the safety and effectiveness of medical devices, the structural integrity of the San Francisco-Oakland Bay Bridge in the wake of the Loma Prieta earthquake, and the requirement for front seat automatic crash protection in light trucks. The latter, a rule imposed by

the National Highway Traffic Safety Administration after GAO reported on the issue, will save an estimated 2,000 lives a year.

As the variety of these issues demonstrates, GAO has an extraordinary capacity to help the Congress respond to the entire spectrum of public policy issues. GAO has statutory authority to examine almost all federal expenditures. It has a staff of auditors, evaluators, and professionals in numerous academic disciplines whose formal training continues throughout their careers. And in addition to field offices located across the continental United



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“FROM HOUSING TO FOREIGN AID,  
FROM THE DRUG WAR TO VETERANS’  
AFFAIRS, THERE WAS HARDLY AN AREA  
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ASSIST THE CONGRESS.”

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*Comptroller General  
Charles A. Bowsher (right)  
confers with the leadership  
of the House Committee on  
Government Operations.  
At center is Chairman  
John Conyers, Jr. To his  
right is Ranking Minority  
Member Frank Horton.*

*Left to right on the Capitol steps: Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs; Chairman of the Senate Armed Services Committee Sam Nunn; and Ranking Minority Member John W. Warner.*



States and in Hawaii and Frankfurt, it has people willing to go anywhere—from Saudi Arabia to Central America to Somalia—to gather facts firsthand.

In 1991, the Congress asked GAO to give special attention to some of the most important issues facing the nation:

#### ■ DEFENSE

With the Persian Gulf War came the inevitable questions about costs and funding requirements. At the request of the Congress, GAO not only reviewed the estimated incremental cost of the conflict, but established that it could be met with funds pledged by U.S. allies rather than with additional taxpayer dollars.

Studying the war will no doubt yield lessons for future defense planning. The Congress asked GAO to assess the elements of this massive logistics operation, including airlift and sealift, supply, and maintenance. GAO also turned its attention to the performance, operation, and maintenance of specific weapon systems—among them the M-1 tank, the AH-64 Apache helicopter, the F-117 aircraft, and the F-18 Navy aircraft—during Operations Desert Shield and Desert Storm.

The Gulf War was only one of two dominant national security issues with which GAO dealt

this year. The other, of course, was the impact of the transformation of East-West relations on U.S. national security. The rapid-fire changes in Eastern Europe and the Soviet Union pose opportunities for better relations and decreased defense spending, but no shortage of difficult choices on such issues as force restructuring, burden sharing, the role of NATO, military base closures, arms control, the defense industrial base, and East-West trade and finance. In 1990, GAO developed a plan for specific reviews of these issues, and in 1991, continued to pursue them.

#### ■ THE U.S. FINANCIAL SYSTEM

The savings and loan bailout continues. Since it began alerting the Congress in the mid-1980s to growing problems in the thrift industry, GAO has monitored the management and costs of the S&L crisis. Based in part on recommendations from GAO, the Congress developed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, under which the Resolution Trust Corporation was established, and continues to deal with the rising costs of the bailout. The \$25 billion that the Congress appropriated in November 1991—following previous appropriations of \$50 billion in 1989 and \$30 billion earlier in 1991—is the latest installment to pay off depositors of failed thrifts.



Eventually, the cumulative costs of the S&L bailout could reach \$500 billion. As the disaster unfolds, the inescapable lesson is that each failure to face up to the problem or delay in acting to resolve it merely allows the eventual costs to go even higher.

S&Ls constitute only one segment of a troubled financial services industry. With audits of the Federal Deposit Insurance Corporation (FDIC) and analyses of several hundred large financial institutions, GAO alerted the Congress late in 1990 that the Bank Insurance Fund (BIF), administered by FDIC, had significantly declined due to costs incurred from bank failures, and in early 1991 alerted the Congress that the fund faced near-certain insolvency by the end of calendar 1991. The fund, GAO reported, was in urgent need of recapitalization. Beyond that, moreover, GAO maintained that recapitalization of the insurance fund would do little good if not accompanied by significant reforms in the management and supervision of insured depository institutions.

The Congress passed a BIF recapitalization plan just before adjourning in November. The plan provides BIF with approximately \$70 billion in borrowing authority—funding that is absolutely necessary to enable regulators to act quickly and decisively to resolve problem institutions. But because of an uncertain economy and the inadequate accounting standards under which the banking industry has been operating, BIF's ultimate funding requirements are still unclear. If, for instance, a major bank were to fail unexpectedly, BIF's new borrowing authority would be insufficient to cover its losses. In addition, BIF still faces long-term problems; its reserves have not been restored, and it now relies on Treasury loans to meet its obligations. Should future bank failures overwhelm the industry's ability to repay the Treasury loans, taxpayers could end up having to cover deposit insurance losses.

The recapitalization plan does contain his-

toric reforms for the banking industry, such as requirements for better internal control systems, more accurate financial reporting, and earlier warning of problems. These will provide banking regulators with a more accurate and timely understanding of the financial status of depository institutions. The plan also provides for an early intervention (or "tripwire") system that will enable banking regulators to act not just on unsafe conditions, but on the unsafe practices that create them. Both reforms should lessen the chance that banks will deplete their capital without the knowledge or intervention of regulators; the effect will be to minimize BIF's losses due to bank failures. Both reforms will also prove all the more necessary should the Congress decide to give banks expanded powers in the future.

#### ■ HEALTH CARE

U.S. health-care spending has risen from 7.3 percent of Gross National Product in 1970 to more than 12 percent today. Yet more than 30 million Americans under age 65 lack public or private

*Chairman  
Donald W. Riegle, Jr.,  
of the Senate  
Committee on  
Banking, Housing,  
and Urban Affairs dis-  
cusses the financial ser-  
vices industry with  
Assistant Comptroller  
General for General  
Government Programs  
Richard L. Fogel.*





“THIS YEAR, GAO CONTINUED TO  
PURSUE ITS MISSION “TO ACHIEVE HONEST,  
EFFICIENT MANAGEMENT AND  
FULL ACCOUNTABILITY  
THROUGHOUT GOVERNMENT.””



*Above, Senate  
Governmental Affairs  
Committee Chairman  
John Glenn discusses  
U.S. health-care mat-  
ters with Assistant  
Comptroller General  
for Human*

*Resources Programs  
Lawrence H. Thompson  
and Director of Health  
Financing and Policy  
Issues Janet L. Shikles.*

*Inset: Ranking  
Minority Member  
William V. Roth, Jr.*



health insurance, and millions more have incomplete coverage. The problems of spiraling costs and inadequate access are ones with which the Congress and the administration continue to wrestle. This year, GAO suggested that the United States look beyond piecemeal reforms to develop a comprehensive set of measures encompassing the entire health-care system. After studying the strategies of Canada, Germany, France, and Japan, GAO cited several common elements worth further evaluation in the

United States: insuring each individual; instituting uniform payment rules for health-care services; and setting targets or caps on total expenditures in major categories, such as hospitals, physicians, and the purchase of high-cost technological equipment. The specific features of any broad-based reform program—the role that government would play, the extent to which employers might be required to provide coverage, the assignment of responsibility for expanding coverage to the uninsured—would need to be decided through debate. But the need for health-care reform is becoming clear as costs and inequities continue to grow.

## ■ THE BUDGET DEFICIT

The federal budget deficit for fiscal year 1991 was the largest in the history of the United States. The federal government's gross deficit (which does not include the surpluses in the Social Security and other trust funds) was \$381 billion. When offsetting surpluses are included, the net deficit figure still totals \$269 billion.

Interest on the public debt in 1991 (including interest on money borrowed from the trust funds) amounted to \$286 billion. For the first time, these interest payments became the largest federal expenditure. In fact, they were about seven times as much as was spent on education, training, employment, and social services, and 15 times as much as was spent on natural resources and the environment.

The 1990 budget agreement demonstrated that the nation's leaders can reach difficult accommodations on budget reform, but fell short of its goal of putting the government on a path toward a balanced budget by the mid-1990s. A sluggish economy and the high costs of both the S&L rescue and deposit insurance contributed to this year's higher deficit, but they did not account for it entirely. The structural causes of the deficit, which GAO has outlined in the past, are still unremedied.



## ■ FEDERAL FINANCIAL MANAGEMENT

This year, implementation began of the Chief Financial Officers (CFO) Act of 1990. GAO long held that the federal government could not continue to operate with antiquated, often barely functioning accounting and financial management systems. But with the CFO Act, the Congress put in place the fundamentals for comprehensive reform. Since passage of the act, GAO has worked with OMB, executive branch agencies, and the inspectors general on all facets of the act—from the establishment of CFO offices to the development of modern financial systems to the reporting and auditing of financial results. GAO has also taken the lead on three of the major pilot financial audits called for by the act (IRS, the U.S. Customs Service, and the Department of the Army) and has joined with OMB and the Treasury Department to work on new federal accounting standards.

## ■ MARKING THE YEAR'S ACCOMPLISHMENTS

GAO has been producing annual financial statements for some time. This year's statements, including an overview of GAO's financial opera-

tions, appear at the close of this report. First, however, is a list of 100 selected reports and congressional testimonies that reflect some of GAO's most significant work in 1991. They also reflect a consistent theme: GAO's continuing effort to help policymakers respond effectively to the issues. GAO's environmental work, for instance, pointed up the need to choose among competing goals. GAO's agricultural work argued the need to bring obsolete policies and programs into line with the modern era. Other reports dealt with the public service, the tax code, welfare reform implementation, and the integration of systems in transportation planning. To make wise choices, policymakers need reliable information and sound insights. These are what GAO has striven, and continues to strive, to provide.

*Charles A. Bowshe*

CHARLES A. BOWSHER  
Comptroller General  
of the United States

*Chairman*

*Henry B. Gonzalez of the House Committee on Banking, Finance, and Urban Affairs, along with Ranking Minority Member Chalmers P. Wylie, greet GAO's Director of Corporate Financial Audits Robert W. Gramling, Legislative Advisor Helen H. Hsing, and Director of Financial Institutions and Markets Issues Craig A. Simmons.*





“TO MAKE WISE CHOICES,  
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*Assistant Comptroller General for National Security and International Affairs  
Frank C. Conahan (above) testifies on counter-narcotics activities in South America before the Legislation and National Security Subcommittee of the House Committee on Government Operations. Above left, Assistant Comptroller General for Program Evaluation and Methodology Eleanor Chelimsky. Left, New York Regional Manager Franklin Frazier. Right, Assistant Comptroller General for Resources, Community, and Economic Development Programs J. Dexter Peach.*



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# HIGHLIGHTS OF GAO REPORTS AND TESTIMONY



**D**uring fiscal year 1991, GAO prepared 880 written reports to the Congress, congressional committees, and individual members; 154 congressional briefings; 70 reports to federal agency officials; and hundreds of legal decisions. In addition, GAO officials testified 277 times before congressional committees.

The list of selected reports and testimonies that follows reflects the range of significant issues with which GAO was involved during the year. After the title of each testimony is the name of the person who delivered the testimony on behalf of GAO.



October 90	November 90	December 90	January 91	February 91	March 91	April 91	May 91	June 91	July 91	August 91	September 91
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*39 Reports to the Congress  
10 Testimonies*

**U.S.-NATO BURDEN SHARING:  
Allies' Contributions to Common  
Defense During the 1980s**

Despite the likelihood of NATO-Warsaw Pact conventional force reductions in Europe, burden sharing among the allies will likely remain as important, if not more so, in the coming years. Reductions in numbers will make the quality of defense all the more important, necessitating more balanced, modern, and technologically advanced forces. (NSIAD-91-32)

**NUCLEAR SAFETY:  
Potential Security Weaknesses at  
Los Alamos and Other DOE Facilities**  
GAO questions the adequacy of security at Los Alamos

and other DOE facilities involved in nuclear weapons research and testing. DOE's security inspections lack the appropriate criteria on which to base ratings, as well as an effective mechanism for ensuring that corrective actions are taken on inspection findings. (RCED-91-12)

**AIRCRAFT MAINTENANCE:  
Potential Shortage in National  
Aircraft Repair Capacity**

Because one-third of the U.S. airline fleet may need major repairs within the next 4 years, the demand for aircraft maintenance may exceed the aircraft repair industry's short-term capacity. Some carriers may be forced to take aircraft out of service until maintenance can be scheduled, adversely affecting air fares and schedules. (RCED-91-14)

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*60 Reports to the Congress  
1 Testimony*

**FINANCIAL AUDIT:  
Department of Veterans Affairs Financial  
Statements for Fiscal Years 1989 and 1988**

GAO included for the first time in a financial statement audit report a comprehensive discussion and analysis of an agency's financial operations. This report illustrates the kind of financial disclosure that should be made in agencies' future annual reports under the Chief Financial Officers Act. GAO reported that VA's financial statements for fiscal years 1989 and 1988 were fairly stated, except for inaccurate property and equipment amounts. (AFMD-91-6)

**VOTING:  
Some Procedural Changes and Informational  
Activities Could Increase Turnout**  
The steady decline in U.S. voter turnout since 1960 might be ameliorated or reversed by replacing cumbersome registration and voting procedures with a system of automatic registration and all-mail balloting. (PEMD-91-1)

**FOOD SAFETY AND QUALITY:  
FDA Surveys Not Adequate to  
Demonstrate Safety of Milk Supply**

More data and better test methods are needed before the Food and Drug Administration can assure consumers that the nation's milk supply is not contaminated by unsafe animal drug residues. (RCED-91-26)

**MEDICAID:  
Legislation Needed to Improve Collections  
from Private Insurers**

GAO recommends that the Congress close Medicaid loopholes that allow private health insurers to avoid paying millions of dollars they owe the states for providing health care to the poor. (HRD-91-25)

**ARMY FORCE STRUCTURE:  
Lessons to Apply in Structuring  
Tomorrow's Army**

As the Army prepares for cutbacks during the next 5 years, several improvements to its force structure would be appropriate. Current circumstances present the Army with a new opportunity to advance its goals of greater standardization of infantry forces, a more effective mix of active and reserve forces, adequate support forces, and an affordable force. (NSIAD-91-3)



GAO did extensive work this year on the Resolution Trust Corporation's management and disposition of properties acquired from failed savings and loans. Above, Dallas Regional Office staff survey one such property, a deteriorating strip shopping center in Dallas.

In 1990, the Federal Aviation Administration gave the airlines 4 years in which to strengthen the airframes of older planes. At right, staff of the Resources, Community, and Economic Development Division and the Seattle Regional Office examine an airliner that will soon undergo the necessary modifications.



GAO helped the Congress examine the skyrocketing cost of U.S. health care—which now consumes more than 12 percent of the nation's Gross National Product—including the link between advances in medical technology and rising costs. Above, a medical technician shows CAT scan equipment to two Detroit Regional Office staff members visiting a hospital in Washington, D.C.

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63 Reports to the Congress  
5 Testimonies

### DRUG INTERDICTION: Funding Continues to Increase But Program Effectiveness Is Unknown

Combating the smuggling of drugs into the United States costs billions of dollars, but no adequate measures have been established to assess the effectiveness of the various interdiction programs. (GGD-91-10)

### ■ TESTIMONY

#### MEDICAID FORMULA: Fairness Could Be Improved

Director of Health Financing and  
Policy Issues Janet L. Shikles

Fairness would be improved if the formula for allocating federal funds to help the states provide medical care for the poor were targeted more toward states with weak tax bases and high poverty levels. (T-HRD-91-5)



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60 Reports to the Congress  
2 Testimonies

#### **IMMIGRATION MANAGEMENT: Strong Leadership and Management Reforms Needed to Address Serious Problems**

Inconsistent leadership and weak management systems at the Immigration and Naturalization Service have allowed serious management problems to go unresolved. INS needs to take immediate action to improve both enforcement and service operations. (GGD-91-28)

#### **INTERNATIONAL BANKING: Implementation of Risk-Based Capital Adequacy Standards**

A review of the implementation of an international agreement for setting capital adequacy standards for banks shows that most of the affected banks in the six countries examined by GAO meet or are close to meeting the minimum standards for risk-based capital. (NSIAD-91-80)

#### **MEDICAL ADP SYSTEMS: Automated Medical Records Hold Promise to Improve Patient Care**

The health care industry lags behind others in its use of automation. Reasons include cost, lack of fully developed technology, potential misuse of medical information, user resistance, and lack of data collection and processing standardization. Automated medical records could greatly improve the management of patient care. (IMTEC-91-5)

#### **INDUSTRIAL BASE: Significance of DOD's Foreign Dependence** The Department of Defense does not know the overall extent of its dependence on foreign sources for critical weapon-systems components, nor has it established criteria for determining what levels of dependence would pose a threat to national security. (NSIAD-91-93)

#### **HOUSING FOR THE ELDERLY: HUD Policy Decisions Delay Section 202 Construction Starts**

Processing time for the Department of Housing and Urban Development's section 202 projects—under which nonprofit organizations receive direct loans for building or rehabilitating rental housing for the elderly and handicapped—has increased over the past 9 years. The reasons for this are that, in some cases, HUD has established fair market rents that do not reflect the costs of construction; HUD offices are inconsistent in their cost containment reviews; and HUD's field offices vary in their administration of the program. (RCED-91-4)

#### **BATTLESHIPS: Issues Arising from the Explosion Aboard the U.S.S. Iowa**

Upon GAO's request, the Department of Energy's Sandia National Laboratories reviewed the Navy's technical analysis of the April 1989 explosion aboard the U.S.S. Iowa that killed 47 sailors. The Navy had concluded that the explosion was caused by a deliberate act and not by a defect in the gun or propellant. While Sandia's preliminary findings neither confirmed nor contradicted the Navy's conclusion, they did identify a plausible alternative explanation—that due to its impact sensitivity, the gun powder could have exploded when, for an unknown reason, it was rammed against the base of the shell. (NSIAD-91-4)

#### **■ TESTIMONY**

#### **MAJOR ISSUES FACING THE 102nd CONGRESS**

*Comptroller General Charles A. Bowsher*  
Chronic difficulties in controlling the budget deficit—aggravated by war abroad and recession at home—have been matched by a host of challenging policy problems in areas such as defense management, financial institutions, health, energy, and the environment. (T-OCG-91-1)

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65 Reports to the Congress  
20 Testimonies

#### **FEDERAL BENEFIT PAYMENTS: Agencies Need Death Information from Social Security to Avoid Erroneous Payments**

Because the Social Security Administration does not inform federal pay-out agencies of deaths in a timely fashion,

millions of dollars are sent to deceased beneficiaries each month. (HRD-91-3)

#### **EASTERN EUROPE: Status of U.S. Assistance Efforts**

In the second of a series of reports, GAO presents information and discusses concerns about how the United States is providing economic assistance to Eastern Europe. (NSIAD-91-110)

## NUCLEAR MATERIALS:

### Decreasing Tritium Requirements and Their Effect on DOE Programs

The decrease in U.S. defense tritium requirements raises questions about the range of tritium production capacity needed in the long term and what technologies are best for meeting these requirements. The Congress should carefully consider the appropriate level of funding for new production reactors, with a view toward minimizing outlays until the Department of Energy studies alternate technologies. (RCED-91-100)

## ■ TESTIMONY

### RESOLUTION TRUST CORPORATION: Performance Assessment to Date

*Comptroller General Charles A. Bowsher*

Although the RTC is making some progress toward cleaning up the savings and loan disaster, the agency has serious problems in such areas as managing and selling assets, contracting for private-sector services, and managing information systems. (T-GGD-91-7)

### UNEMPLOYMENT INSURANCE:

#### Adequacy of State Trust Fund Reserves

*Assistant Comptroller General for Human Resources Programs Lawrence H. Thompson*

If the current recession is deeper and more prolonged than anticipated, many states will probably run out of unemployment insurance funds and need to resort to federal loans to pay jobless benefits. (T-HRD-91-7)

## NUCLEAR WEAPONS COMPLEX:

### GAO's Views on DOE's Reconfiguration Study

*Assistant Comptroller General for Resources, Community, and Economic Development Programs J. Dexter Peach*

The Department of Energy's latest study on revamping the nation's nuclear weapons complex falls short in its examination of costs, health and safety factors, environmental contamination, future nuclear weapons demand, and other important issues. (T-RCED-91-8)

## MEDICARE:

### Millions in Potential Recoveries

#### Not Being Sought by Contractors

*Director of Health Financing and*

*Policy Issues Janet L. Shikles*

Medicare carriers should be trying to recover hundreds of millions of dollars potentially owed to the Medicare program by other insurers. GAO believes that additional funding for contractors to recover mistaken payments would return considerably more to the Medicare program than the dollars spent. (T-HRD-91-8)

### THE ADMINISTRATION'S PROPOSAL FOR FINANCING OPERATIONS DESERT SHIELD AND DESERT STORM

*Comptroller General Charles A. Bowsher*

While GAO feels that the government should provide American troops taking part in Operation Desert Storm with all the support they need, it believes that the Congress should not provide an "open checkbook" to fund the war in the Persian Gulf. GAO also believes that the allies, rather than the U.S. taxpayer, should be the first source of funding for the war. (T-NSIAD-91-9)



*Comptroller General Charles A. Bowsher testifies on the Comptroller of the Currency's supervision of the failed Bank of New England before the Senate Committee on Banking, Housing and Urban Affairs. He is accompanied by Richard L. Fogel, Assistant Comptroller General for General Government Programs (foreground) and Mark Gillen, Assistant Director in the Financial Institutions and Markets Issues Area.*



101 Reports to the Congress  
27 Testimonies

#### DEPOSIT INSURANCE:

##### A Strategy for Reform

At a time when public confidence in the banking system is threatened both by the number of weak or failing banks and by the shaky condition of the insurance fund, GAO offers a three-part proposal for deposit insurance reform. (GGD-91-26)

#### TAX ADMINISTRATION:

##### IRS Does Not Investigate Most

##### High-Income Nonfilers

People who make more than \$100,000 a year and do not file tax returns are less likely to be caught by the Internal Revenue Service than are lower-income nonfilers, and the returns of high-income late filers receive less scrutiny than those of people who file on time. (GGD-91-36)

#### FOOD SAFETY AND QUALITY:

##### Stronger FDA Standards and Oversight Needed for Bottled Water

Because of lax oversight by the Food and Drug Administration, bottled waters, including mineral water, may contain levels of potentially harmful contaminants not allowed in public drinking water. (RCED-91-67)

#### FEDERAL PRISONS:

##### Revised Design Standards Could Save Expansion Funds

The Bureau of Prisons evaluated prison overcrowding and the need for new facilities on the basis of a one-inmate-per-cell standard, even though it has been double-bunking inmates at virtually all facilities. GAO recommends that the Congress consider making the Bureau's fiscal year 1992 budget request for new prison construction contingent on a transition to standards that include double-bunking wherever possible. (GGD-91-54)

#### ■ TESTIMONY

#### FEDERALLY SPONSORED RESEARCH:

##### Indirect Costs Charged by Stanford University

*Special Assistant to the Comptroller General Milton J. Socolar*  
Serious defects in the way Stanford University calculated overhead costs for federally sponsored research, combined with lax oversight by the Office of Naval Research, led to significant overcharges to the government. (T-RCED-91-18)

#### STRATEGIC BOMBERS:

##### Issues Related to the B-1B Aircraft Program

*Director of Air Force Issues Nancy R. Kingsbury*

The B-1B aircraft is still plagued by defensive avionics problems and an ineffective anti-icing capability, and has experienced engine blade failures. The eventual cost of remedying these problems could exceed \$1 billion. (T-NSIAD-91-11)

#### RECREATION CONCESSIONERS

##### OPERATING ON FEDERAL LANDS

*Director of Planning and Reporting in the Resources, Community, and Economic Development Division  
Keith O. Fultz*

While public recreation facilities on federal lands deteriorate due to tight budgets, private firms that operate hotels, restaurants, and other concessions in national parks and forests return only about 2 percent of their gross revenues to the government. (T-RCED-91-6)

#### OPERATIONAL PERFORMANCE OF THE U.S. POSTAL SERVICE

*Director of Government Business Operations Issues  
L. Nye Stevens*

The Postal Service achieved productivity gains in 1990 but at the expense of service indicators, such as overnight delivery rates. GAO believes the Postal Service must attach incentives to new service measurements comparable to those now tied to productivity measures. (T-GGD-91-9)

96 Reports to the Congress  
56 Testimonies

#### BANK SUPERVISION:

##### Prompt and Forceful Regulatory Actions Needed

Meaningful deposit insurance reform must include an enforcement process that is more predictable, more credible, and less discretionary than today's approach.

GAO recommends that the Congress require regulators to implement a trip-wire approach that obligates them to take early and forceful action tied to specific unsafe banking practices. (GGD-91-69)

#### PRIVATE PENSIONS:

##### Millions of Workers Lose Federal Benefit Protection at Retirement

Three to four million retirees and dependents of retirees



receive annuities purchased for them from life insurance companies. Federal guarantees do not extend to these annuities. Due to limited data, GAO cannot determine the likelihood or value of losses by annuitants, but 170 life insurance companies have failed since 1975, and some pensioners could lose all or part of their pension benefits in the wake of insurance company failures. (HRD-91-79)

#### **FAILED BANKS:**

##### **Accounting and Auditing Reforms Urgently Needed**

Internal control weaknesses continue to be a significant cause of bank failures. In addition, the regulatory early warning system intended to flag troubled institutions is seriously flawed. Accounting and auditing reforms are urgently needed and should be part of any plans to reform deposit insurance or recapitalize the Bank Insurance Fund. (AFMD-91-43)

#### **FEDERAL CRIMINAL JUSTICE SYSTEM: A Model to Estimate System Workload**

The Congress and various law enforcement agencies have poured new resources into some components of the criminal justice system without understanding the effects this would probably have on other components. Adding resources (such as new FBI or DEA agents) at the investigative stage, or "front end" of the system, without corresponding additions at the prosecutorial and adjudicative stages, has created bottlenecks. GAO's workload estimate model is intended to inform the Congress and others of these overall relationships, and to help them avoid creating major additional imbalances in the future. (GGD-91-75)

#### **■ TESTIMONY**

##### **REBUILDING THE BANK INSURANCE FUND**

*Comptroller General Charles A. Bowsher*

The bank insurance fund is nearing insolvency and must be rebuilt. GAO urges an industry-financed true recapitalization of the fund, the adoption of accounting and auditing reforms to provide better information on the condition of individual banks, and institution of a system to deal quickly with problems uncovered by bank examiners. (T-GGD-91-25)

##### **AUTOMOBILE WEIGHT AND SAFETY**

*Assistant Comptroller General for Program Evaluation and Methodology Eleanor Chelmsky*

Automotive fatality rates do not increase simply because cars get lighter. The sizes of automobiles have different implications depending on the type of accident. In two-vehicle collisions, for example, the increased protection afforded the occupants of large cars must be considered in conjunction with the heightened risk that heavy cars pose to the occupants of other vehicles. (T-PEMD-91-2)

#### **DEFENSE BUDGET AND PROGRAM ISSUES FACING THE 102nd CONGRESS**

*Comptroller General Charles A. Bowsher*

Reducing the defense establishment while ensuring that limited defense dollars are spent wisely and military strength is preserved will require tough decisions by the Congress and the Pentagon. (T-NSIAD-91-21)

#### **U.S. HEALTH CARE SPENDING: Trends, Contributing Factors, and Proposals for Reform**

*Comptroller General Charles A. Bowsher*

Because past policies have not succeeded in containing spiraling U.S. health care costs, the Congress should consider the more comprehensive reform approaches taken in other countries. These include insuring each individual; instituting uniform payment rules for health care services; and setting caps on total expenditures for major categories, such as hospitals, physicians, and technology.

(T-HRD-91-16)

#### **IRS' EFFORTS TO ENSURE CORPORATE TAX COMPLIANCE**

*Director of Tax Policy and Administration Issues*

*Jennie L. Stathis*

Small corporations voluntarily paid only about 61 percent of the income tax they owed in 1987—down an unprecedented 20 percentage points from 1980. Persistent IRS management problems, combined with complex and changing tax laws, may further erode compliance by the largest corporations. (T-GGD-91-21)

#### **NUCLEAR WEAPONS COMPLEX:**

##### **Reconfiguring DOE's Weapons Complex**

*Assistant Comptroller General for Resources, Community, and Economic Development Programs J. Dexter Peach*

The Department of Energy's recent report on reconfiguring the nuclear weapons complex is a starting point for solving many of the complex's problems, but decisions remain to be made about the size of the complex, the location of plutonium operations, the choice of technologies for new tritium production, and the disposition of excess plutonium. (T-RCED-91-40)



*While planning for GAO's review of the Americans with Disabilities Act, members of GAO's Program Evaluation and Methodology Division staff visit the special needs center of a regional telephone company in Minneapolis, Minnesota.*



Twenty-five percent of the nation's domestically-produced oil passes through the Trans-Alaska Pipeline (left). This year, GAO studied the ways federal and state regulators could better monitor safety and environmental requirements for the pipeline and the Valdez Terminal.



As part of their work on federal anti-drug programs, staff from the National Security and International Affairs Division and the Information Management and Technology Division (above) observe air traffic intelligence activities carried out by the U.S. Customs Service and the U.S. Coast Guard south of Miami, Florida.

At left, personnel at Edwards Air Force Base in California discuss the B-2 stealth bomber with staff of GAO's Los Angeles Regional Office. Staff from the Los Angeles, Cincinnati, and Kansas City Regional Offices have participated with members of the National Security and International Affairs Division in reviews of the acquisition and logistics support of the B-2.

October 90	November 90	December 90	January 91	February 91	March 91	April 91	May 91	June 91	July 91	August 91	September 91
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103 Reports to the Congress  
58 Testimonies

#### **MILITARY BASES: Observations on the Analyses Supporting Proposed Closures and Realignments**

Army and Air Force recommendations for closing and realigning domestic military bases as part of the defense drawdown were adequately supported, using Department of Defense criteria. Lack of adequate documentation precluded similar analysis of the Navy's base closure decisions. (NSIAD-91-224)

#### **PESTICIDES: EPA Could Do More to Minimize Groundwater Contamination**

Five years after identifying 16 pesticides as groundwater contaminants, the Environmental Protection Agency has made only limited progress toward fully assessing their leaching potential or acting to protect groundwater. (RCED-91-75)

#### **GOVERNMENT-SPONSORED ENTERPRISES:**

##### **A Framework for Limiting the Government's Exposure to Risks**

With GSEs—which make credit available to farmers, home owners, colleges, and students—now holding more than \$1 trillion in obligations, GAO recommends that the Congress establish a GSE regulator, an oversight structure, and reasonable capital and other safety and soundness rules to protect taxpayers against losses that GSEs could suffer under adverse economic conditions. (GGD-91-90)

#### **CHEMICAL WARFARE: Soldiers Inadequately Equipped and Trained to Conduct Chemical Operations**

Before Operation Desert Shield was launched, serious defects in the Army's Chemical Defense Program left U.S. troops poorly prepared to confront a chemical weapons attack. (NSIAD-91-197)



## **TRAUMA CARE:**

### **Lifesaving System Threatened by Unreimbursed Costs and Other Factors**

The extraordinary costs of treating severe injuries, combined with an increasing uninsured population, rising urban violence, and insufficient reimbursement from public programs, have caused many urban trauma care centers to close. Those that remain open face growing financial losses. (HRD-91-57)

## **FINANCIAL AUDIT:**

### **Farmers Home Administration's Financial Statements for 1989 and 1988**

GAO's opinion on FmHA's financial statements for 1989 and 1988 is qualified because GAO was unable to satisfy itself that the acquired farm and rural housing property accounts were presented fairly. GAO and OMB have identified FmHA as a high-risk area within the federal government; this report discusses the nature and extent of problems in FmHA systems and programs. (AFMD-91-36)

## **SMART HIGHWAYS:**

### **An Assessment of Their Potential to Improve Travel**

Information on the potential effects of "smart highways" is limited but promising. Cost, technological, and institutional problems remain to be overcome, and the proper mix of burden-sharing among the private sector and local, state, and federal governments must be determined. (PEMD-91-18)

## **SOVIET ENERGY:**

### **U.S. Attempts to Aid Oil Production Are Hindered by Many Obstacles**

U.S. and Soviet policies and practices stand in the way of American firms that want to invest in helping the Soviet Union develop its energy resources. (NSIAD-91-214)

## **AIRCRAFT MAINTENANCE:**

### **Additional FAA Oversight Needed of Aging Aircraft Repairs**

A shortage of parts, mechanics, and hangars, coupled with the financial plight of the airline industry, may mean that repairs to about 1,400 aging airliners will not be completed by the Federal Aviation Administration's mid-1994 deadline. (RCED-91-91A and B)

## **MANAGEMENT PRACTICES:**

### **U.S. Companies Improve Performance Through Quality Efforts**

A number of U.S. firms have turned to total quality management in an effort to improve corporate performance. GAO examined 20 such firms and found that nearly every one achieved better employee relations, higher productivity, greater customer satisfaction, increased market share, and improved profitability. (NSIAD-91-190)

## **WAR ON DRUGS:**

### **Information Management Poses Formidable Challenges**

Federal agencies waging the war on drugs operate more than 100 different drug-related computer systems, presenting formidable challenges to sharing and guaranteeing the accuracy of its data and protecting sensitive information about investigations. (IMTEC-91-40)

## **MEDICARE:**

### **Further Changes Needed to Reduce Program and Beneficiary Costs**

Despite attempts to constrain costs, Medicare spending has risen at a troubling rate—from \$70 billion in 1985 to \$106 billion in 1990. GAO proposes reforms that could result in over \$1 billion in savings and achieve more effective program administration. (HRD-91-67)

## **INSURANCE REGULATION:**

### **State Handling of Financially Troubled Property/Casualty Insurers**

Insurance regulators typically were late in taking formal enforcement action against financially troubled companies, not taking action in 71 percent of failed insurance company cases until the time of insolvency or later. Improved information and uniform standards defining troubled and insolvent companies might help better protect policyholders. (GGD-91-92)

## **■ TESTIMONY**

## **STRATEGIC DEFENSE**

### **INITIATIVE PROGRAM:**

#### **A Look at Lessons Learned During SDIO's First 7 Years**

*Assistant Comptroller General for National Security and International Affairs Frank C. Conahan*

The Pentagon's development of SDI, the space-based "Star Wars" antimissile defense system, has been unnecessarily hampered by its making plans and starting projects on the basis of overly optimistic funding requests and schedules, and by unrealistic assumptions about the growth of new technology. (T-NSIAD-91-33)

## **INSURANCE REGULATION:**

### **Assessment of the National Association of Insurance Commissioners**

*Assistant Comptroller General for*

*General Government Programs Richard L. Fogel*

The National Association of Insurance Commissioners, which has assumed the role of national insurance regulator in order to effect uniform solvency standards, cannot achieve its goals because it lacks the authority to compel the states to take the actions necessary for effective regulation. (T-GGD-91-37)



## INADEQUATE CONTROLS OVER DOD SUBCONTRACTS COST GOVERNMENT MILLIONS OF DOLLARS

*Assistant Comptroller General for National Security and International Affairs Frank C. Conahan*

Weapons manufacturers annually reap hundreds of millions of dollars in Pentagon overpayments because inflated subcontractor pricing is frequent and pervasive, and cost-estimating problems are chronic and widespread. (T-NSIAD-91-37)

## QUESTIONS REMAIN ON THE COSTS, USES, AND RISKS OF THE REDESIGNED SPACE STATION

*Comptroller General Charles A. Bowsher*

While the latest changes in the proposed permanent manned space station have reduced its capabilities, it will still cost about \$10 billion more than National Aeronautics and Space Administration estimates and faces formidable technical challenges. (T-NSIAD-91-26)

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*68 Reports to the Congress  
38 Testimonies*

### ENVIRONMENTAL PROTECTION: Meeting Public Expectations With Limited Resources

To get a better indication of the effectiveness of its programs, the Environmental Protection Agency should focus on measuring changes in environmental conditions rather than on levels of regulatory activity. An environmental control strategy that combined traditional regulatory approaches with pollution prevention and market incentives could make EPA's efforts less costly and more effective than they are today. (RCED-91-97)

### CANADIAN HEALTH INSURANCE: Lessons for the United States

Universal coverage and the single-payer features of the Canadian system, if applied in the United States, would produce administrative savings sufficient to finance insurance coverage for the millions of Americans who are uninsured. At the same time, however, constraints in the Canadian system have also resulted in waiting lists for certain specialty-care services. (HRD-91-90)

### TOXIC SUBSTANCES: EPA's Chemical Testing Program Has Not Resolved Safety Concerns

The Environmental Protection Agency has made little progress in developing information on the safety of thousands of chemicals that affect daily life, nor has it regulated or warned the public about known dangerous chemicals. (RCED-91-136)

### ENVIRONMENTAL ENFORCEMENT: Penalties May Not Recover Economic Benefits Gained by Violators

The Environmental Protection Agency needs to exercise much stronger oversight to deter violations; treat the regulated community consistently and fairly; and ensure that it has adequate management controls to combat waste, fraud, and abuse in its assessment and collection of penalties. (RCED-91-166)

### VA HEALTH CARE: Inadequate Controls Over Addictive Drugs

Because Department of Veterans Affairs pharmacies inadequately control the storage of addictive prescription drugs, large quantities have been stolen without managers ever detecting the thefts. (HRD-91-101)

### NAVY HOMEPORTS: Expanded Structure Unnecessary and Costly

Decisions on the expansion of the Navy's homeporting program have been based on insufficient support. By ending the homeporting expansion program now, the government could achieve a one-time savings of \$593 million, as well as avoid \$57 million in annual operating costs. (NSIAD-91-158)

#### ■ TESTIMONY

### RESOLUTION TRUST CORPORATION: Update on Funding and Performance

*Comptroller General Charles A. Bowsher*

The costs of the savings and loan cleanup are expected to exceed the high end of RTC estimates, requiring additional billions of dollars from taxpayers. Meanwhile, major problems continue to plague the RTC in its handling of the thrift crisis. (T-GGD-91-43)

91 Reports to the Congress  
27 Testimonies

## **WATER POLLUTION:**

### **Stronger Efforts Needed by EPA to Control Toxic Water Pollution**

The Environmental Protection Agency and the states have not identified many of the nation's rivers, lakes, and streams impaired by toxic pollutants. Also, less than 3 percent of the 18,770 impaired waters that have been identified are targeted for more stringent regulatory controls or cleanup. (RCED-91-154)

## **JOB TRAINING PARTNERSHIP ACT:**

### **Inadequate Oversight Leaves Program Vulnerable to Waste, Abuse, and Mismanagement**

Federal and state oversight of the Job Training Partnership Act, under which a highly decentralized program operates with over 600 local service delivery areas, has failed to detect improper spending on administrative operations and training contracts. (HRD-91-97)

## **WEATHER SATELLITES:**

### **Action Needed to Resolve Status of the U.S. Geostationary Satellite Program**

The National Weather Service's lone operational geostationary satellite could fail at any time, while its more advanced replacement, already 3 years behind schedule, has serious technical problems that could further delay its deployment and add to its rapidly rising costs. (NSIAD-91-252)

## **SUPERFUND:**

### **More Settlement Authority and EPA Controls Could Increase Cost Recovery**

The Environmental Protection Agency has increased the number and dollar value of its negotiated settlements. It does not, however, have performance measures to show the extent to which these settlements are achieving program goals. (RCED-91-144)

## **CREDIT UNIONS:**

### **Reforms for Ensuring Future Soundness**

Although the condition of federally insured credit unions is better than that of banks and thrifts, the new and more risky environment in which credit unions are operating requires literally dozens of agency and legislative changes to safety and soundness regulations and makes it appropriate for the Congress to hold annual oversight hearings on the industry's health. (GGD-91-85)

## **DEBT MANAGEMENT:**

### **More Aggressive Actions Needed to Reduce Billions in Overpayments**

Despite a decade of audits detailing serious, long-standing problems with the government's debt collection practices, billions of dollars in overpayments to Social Security and other beneficiaries remain outstanding and millions have been written off as uncollectible. (HRD-91-46)

## **PENSION PLANS:**

### **IRS Needs to Strengthen Its Enforcement Program**

The Internal Revenue Service needs to strengthen its enforcement of a 1974 law aimed at eliminating mismanagement, fraud, and abuse of private pension plans and update its criteria for identifying plans that put pensioners' benefits at risk. (HRD-91-10)

## **TRANS-ALASKA PIPELINE:**

### **Regulators Have Not Ensured that Government Requirements Are Being Met**

Although the Trans-Alaska Pipeline delivers nearly 25 percent of the nation's domestically produced oil across Alaska's rugged environment, adequate safety oversight has been lacking. Government agencies essentially let the company that operates the pipeline police itself. (RCED-91-89)

## **NUTRITION MONITORING:**

### **Mismanagement of Nutrition Survey Has Resulted in Questionable Data**

A major decennial survey of Americans' food and nutrient consumption, influencing the spending of billions on federal food assistance programs, was so poorly managed by the Department of Agriculture's Human Nutrition Information Service that the usefulness of the data is in doubt. (RCED-91-117)

## **■ TESTIMONY**

## **RESOLUTION TRUST CORPORATION:**

### **Structure and Oversight Issues**

*Assistant Comptroller General for*

*General Government Programs Richard L. Fogel*

Frustration resulting from RTC's slow progress in asset disposition has led to various proposals to restructure RTC—primarily focused on separating RTC from the Federal Deposit Insurance Corporation and on changing the dual board structure. Given the massive cost of the savings and loan cleanup, GAO suggests that strong independent oversight of RTC be included in any restructuring plans. (T-GGD-91-55)



## **B-2 PROGRAM:**

### **Procurement Decisions Should Be Based on Demonstrated Performance**

*Director of Air Force Issues Nancy R. Kingsbury*

If production of the B-2 bomber is to continue, GAO recommends that its production rate not be increased until the aircraft successfully completes flight tests and its builders resolve serious manufacturing problems. (T-NSIAD-91-45)

## **AIRPORT SAFETY:**

### **New Radar that Will Help Prevent Accidents Is Four Years behind Schedule**

*Director of Transportation Issues Kenneth M. Mead*

Deployment of new ground radar capable of preventing airport runway collisions has slipped almost 4 years and could slip even further. Moreover, the Federal Aviation Administration may be risking the timely completion of other projects that air traffic controllers say they need the most. (T-RCED-91-78)

## **TELECOMMUNICATIONS:**

### **1991 Survey of Cable Television Rates and Services**

*Director of Housing and Community*

*Development Issues John M. Ols, Jr.*

During the 4 years following deregulation of the cable television industry, the average monthly subscriber charge for the lowest priced service increased 56 percent, with six channels added, and the most popular basic service rose 61 percent, with eight channels added. (T-RCED-91-82)

## **JOB TRAINING PARTNERSHIP ACT:**

### **Racial and Gender Disparities In Services**

*Assistant Comptroller General for Human Resources*

*Programs Lawrence H. Thompson*

Minorities and women are less likely than others to receive occupational training under the act, and the training they do receive is likely to be for lower paid jobs.

(T-HRD-91-42)



*Along with rising costs, access to services is the major problem facing the U.S. health care system. At left, evaluators (standing) from GAO's Boston Regional Office visit a federally funded clinic offering free after-hours immunizations to the public in Washington, D.C.*



*At right, a bridge closed to traffic on U.S. Highway 50 in Milford, Ohio. With some 238,000 of the nation's 578,000 bridges now deficient, GAO looked into the methods by which the Department of Transportation and several states determine what work is needed.*



*As required by the Chief Financial Officers Act of 1990, the Department of the Army will soon produce consolidated financial statements for fiscal year 1991—an unprecedented step for the Department. In preparation for auditing the statements, GAO auditors performed field work at four Army depots, including Corpus Christi Army Depot (above).*



*78 Reports to the Congress*  
*13 Testimonies*

#### **FINANCIAL ANALYSIS:**

##### **Short-Term Funding Needs of the Bank Insurance Fund and the Resolution Trust Corporation**

The fund that protects federally insured bank deposits will likely be insolvent by year's end, and by September 30, 1991 the RTC, responsible for the savings and loan cleanup, will have exhausted all but \$1 billion of the \$80 billion the Congress provided to cover losses in the industry. (AFMD-91-90)

#### **TRANSITION FROM SCHOOL TO WORK:**

##### **Linking Education and Worksite Training**

U.S. competitiveness would be enhanced if more American youths who did not graduate from college—about 80 percent of all young people—were enrolled in high-quality cooperative education programs that combine classroom instruction with work experience and on-the-job training. (HRD-91-105)

#### **TRANSPORTATION INFRASTRUCTURE:**

##### **Preserving the Nation's Investment in the Interstate Highway System**

State maintenance practices and Federal Highway Administration (FHWA) oversight are not ensuring adequate maintenance of the Interstate Highway System. GAO recommends that FHWA work closely with the states to develop measurable maintenance standards. (RCED-91-147)

#### **TAX POLICY:**

##### **Issues and Policy Proposals Regarding Tax Treatment of Intangible Assets**

In 1987, \$262 billion in corporate intangible assets changed hands. One of the oldest tax controversies involves the amount that buyers of these assets may deduct on their tax returns. GAO believes that this controversy is likely to continue until the Congress intervenes, and suggests that the Congress consider revising statutory cost recovery periods for purchased intangible assets, including goodwill. (GGD-91-88)

#### **FEDERAL AGRICULTURAL MORTGAGE CORPORATION:**

##### **Potential Role in the Delivery of Credit for Rural Housing**

This report examines Farmer Mac's actions to establish a secondary market for rural housing loans, as well as its potential role—and the barriers it may face—in facilitating the delivery of credit for rural housing. (RCED-91-180)

#### **FINANCIAL AUDIT:**

##### **Department of Agriculture's Financial Statements for Fiscal Year 1988**

This is the first consolidated financial statement audit report of a federal department and is a prototype for future reports. USDA's financial statements for fiscal year 1988 were fairly stated. However, many internal control and accounting system deficiencies were identified that rendered unreliable much of the data the Department reported. USDA needs to place greater emphasis on corrective actions, particularly given that in four high-risk areas it deferred corrective action for periods ranging from 2 months to almost 6 years. (AFMD-91-65)

#### **MILITARY PRESENCE:**

##### **U.S. Personnel in the Pacific Theater**

This report describes the U.S. military presence in the Pacific theater—more than 516,000 service members, U.S. civilian employees, and dependents—and addresses such questions as the missions, military command structures, and reporting channels of the Department of Defense organizations located there. (NSIAD-91-192)

#### **1990 CENSUS:**

##### **Reported Net Undercount Obscured Magnitude of Error**

GAO estimates that the 1990 census contained a minimum of 14.1 million gross errors and perhaps as many as 25.7 million errors, depending on how broadly census error is defined. In either case, these are substantially more errors than indicated by the Census Bureau's widely reported 1990 net census undercount of about 5.3 million persons. (GGD-91-113)

#### **FINANCIAL MARKETS:**

##### **Computer Security Controls at Five Stock Exchanges Need Strengthening**

Systems security and other control weaknesses at five of the six stock markets reviewed by GAO could impair their ability to maintain continuous service, protect critical computer equipment and operations, and correctly process information. (IMTEC-91-56)



*Above, GAO evaluators examine a simulated computer display aboard a mock-up of Space Station Freedom at the Johnson Space Center in Houston, Texas. GAO has been monitoring computer technologies to be used in support of the proposed space station.*



*Above, a member of GAO's Office of Special Investigations (OSI) confers with a New York Regional Office staff member on OSI's inquiry into real estate appraisals supporting loans purchased by the Federal Home Loan Mortgage Corporation.*



*At left, unassisted Ethiopian refugees living in makeshift shelters in Sudan. This year, GAO evaluators travelled to refugee camps in Ethiopia, Sudan, Guinea, Malawi, Malaysia, Pakistan, Northern Iraq, and Turkey as part of their review of assistance to and living conditions of refugees around the world.*



*126 Reports to the Congress*  
*20 Testimonies*

#### **U.S. DEPARTMENT OF AGRICULTURE: Revitalizing Structure, Systems, and Strategies**

Hampered by an organizational structure that has gone unchanged since the 1930s, USDA cannot respond effectively to such modern challenges as increased international competition, biotechnology, and food safety and environmental problems. (RCED-91-168)

#### **HOMELESSNESS:**

##### **Transitional Housing Shows Initial Success But Long-Term Effects Unknown**

The Transitional Housing Program administered by the Department of Housing and Urban Development (HUD) is serving the targeted groups, and clients in transitional housing projects are receiving a broad range of supportive services. But HUD needs to develop guidelines for grantees to use in gathering data for evaluating the program. (RCED-91-200)

#### **REFUGEES:**

##### **Living Conditions Are Marginal**

Although most refugees around the world are receiving the minimum care necessary to sustain life, living conditions and provisions for refugee assistance vary widely, and host countries and agencies often face major obstacles in delivering aid. (NSIAD-91-258)

#### **BANK SUPERVISION:**

##### **OCC's Supervision of the Bank of New England Was Not Timely or Forceful**

The failure of the Bank of New England—one of the costliest in U.S. banking history—might have been prevented if regulators in the Office of the Comptroller of the Currency had acted sooner and more forcefully to compel the bank to correct problems identified as early as 1985. (GGD-91-128)

#### **OFF-LABEL DRUGS:**

##### **Reimbursement Policies Constrain Physicians in Their Choice of Cancer Therapies**

"Off-label" refers to instances in which drugs are used to treat conditions other than those included on the label. One-third of all drug administrations to cancer patients are off-label. GAO found many oncologists have problems with reimbursement from health insurers for off-label uses and that these problems have led many to alter their preferred treatments. (PEMD-91-14)

#### **GLOBAL FINANCIAL MARKETS:**

##### **International Coordination Can Help Address Automation Risks**

Given the increasing automation in worldwide securities and futures markets, GAO recommends that U.S. regulators actively work with the international financial community to address automation issues globally, including the need to ensure secure and continuous service, correct processing of transactions, and responsive operations. (IMTEC-91-62)

#### **FINANCIAL AUDIT:**

##### **House Office of the Sergeant at Arms—Periods Ended 5-30-90 and 12-31-89**

The "House Bank"—a deposit fund administered for the convenience of Members of the House of Representatives—allowed its account holders routinely, and without penalty, to cash checks with insufficient funds. (AFMD-91-11)

#### **FTS 2000:**

##### **GSA Must Resolve Critical Pricing Issues**

Although a major objective of FTS 2000 was to provide the federal government with telecommunications services at a cost comparable to or below commercial levels, GAO found that the government has paid substantially above commercial rates and will continue to do so through fiscal year 1992 unless prices are reduced. (IMTEC-91-79)

#### **SSA COMPUTERS:**

##### **Long-Range Vision Needed to Guide Future Systems Modernization Efforts**

Unless the Social Security Administration establishes a long-range plan to guide its information technology efforts, it risks being overwhelmed by huge increases in the number of beneficiaries. Past planning efforts have been hampered by the lack of a consistent vision and by frequent changes in leadership. Another problem is that SSA backs up only 20 percent of its workload, and therefore risks losing large amounts of data and seriously impairing its performance. (IMTEC-91-44)

#### **STUDENT LOANS:**

##### **Direct Loans Could Save Money and Simplify Program Administration**

Replacing the Stafford loan program with a direct student loan program could save the government more than \$1 billion—assuming the loans were made during fiscal year 1992. While a direct loan program would require the Department of Education to assume new oversight responsibilities, it would reduce some of the Department's administrative burden, and might improve accountability. (HRD-91-144BR)



*Left to right,  
Edward J. Mazur,  
Controller, Office of  
Federal Financial  
Management in the  
Office of Management  
and Budget (OMB);  
Frank Hodsoll,  
Deputy Director for  
Management in OMB;  
Jeffrey C. Steinhoff,  
Director for Civil  
Audits in GAO's  
Accounting and  
Financial Management  
Division; and  
Donald H. Chapin,  
Assistant Comptroller  
General for Accounting  
and Financial  
Management.*



# FINANCIAL INFORMATION



On the following pages appear a brief overview of GAO's operations and financial management, its financial statements for fiscal years 1991 and 1990, and the independent accountants' report on their audit of the statements and their reports on GAO's internal controls and compliance with laws and regulations.

With passage of the Chief Financial Officers Act of 1990, a new federal financial management structure is being put in place. GAO is working closely with the Office of Management and Budget and with the departments on the establishment of a governmentwide network of chief financial officers. In addition, under the provisions of the act, many departments and agencies will soon produce their own financial statements for the first time, and those statements will be audited.

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# OVERVIEW OF OPERATIONS AND FINANCIAL MANAGEMENT

As a nonpartisan agency within the legislative branch, GAO evaluates federal agencies, corporations, and programs; offers legal opinions; and provides the Congress and the public with analysis and recommendations on the effectiveness and efficiency of government.

## **Financial Resources and Results of Operations**

The accompanying statements summarize GAO's financial position, including the cost of its operations and all significant sources and uses of resources during fiscal years 1991 and 1990.

The cost of operating GAO during these fiscal years was about \$400 million and \$365 million, respectively. Over 96 percent of its operations were financed through appropriations and the remainder through reimbursements from other government agencies. During fiscal year 1991, expenses for salaries and related costs totaled \$300 million, or 75 percent of GAO's operating expenses. The remaining 25 percent included travel, rent and utilities, automatic data processing, and other items. This supported a worldwide staffing level of 5,069 full-time equivalent staff-years, most of which were employed in carrying out GAO's audit and evaluation activities. This staffing level has remained relatively constant during the past decade.

## **Investments to Improve Productivity**

GAO has invested in its people and working environment to improve staff effectiveness and productivity. In 1991, GAO

- developed a 2-year plan to begin to implement quality management across the organization;
- invested heavily in continuing professional education for staff;
- provided for major technology improvements to enhance information sharing within the organization; and
- invested in improvements and renovations to the 40-year old GAO building and various leased sites.



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### Internal Control Initiatives

GAO maintains a system of internal controls to provide reasonable assurance that its assets are protected, transactions are properly executed and recorded, and operations are conducted in accordance with established policies and procedures. Also, GAO's accounting system conforms in all material respects with the principles, standards, and related requirements contained in title 2 of GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*. GAO is firmly committed to the Federal Managers' Financial Integrity Act of 1982, and ensures compliance with the act's objectives through:

- a senior level internal control advisory committee to provide policy oversight and guidance;
- a management plan to ensure that internal controls throughout the organization are evaluated systematically;
- an internal review program that showed that GAO's quality controls are providing reasonable assurance that its audit and evaluation work conforms with applicable professional standards and related GAO requirements; and
- a Quality Control Review Board, consisting of a number of distinguished individuals from outside GAO, to provide external perspectives and advice on the effectiveness of GAO's quality assessments of its audit and evaluation work.

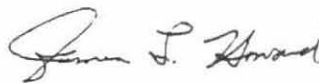
### Performance Information

Several important performance measures are discussed earlier in this report, such as the number of products produced by GAO and the measurable financial benefits from its work. Additional GAO performance measures are addressed in a separate publication titled *1991 Annual Report of Key Performance Indicators*.

### Audit of GAO's 1991 Financial Statements

The audit of GAO's 1991 financial statements was performed by the independent accountants, Price Waterhouse. The independent accountants' report on the financial statements, along with their reports on Internal Controls and Compliance with Laws and Regulations accompany the financial statements.

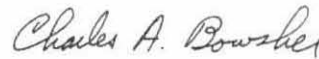
At the time GAO contracted for audit services for this year's financial statement audit, GAO contemplated work called for under Generally Accepted Government Auditing Standards. Future audits of GAO's financial statements will be carried out with full consideration of the requirements of the Chief Financial Officers Act of 1990 and implementing guidance issued by the Office of Management and Budget.



*Assistant Comptroller General  
for Operations*



*Assistant Comptroller General  
for Planning and Reporting*



*Comptroller General  
of the United States*

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## Report of Independent Accountants on Financial Statements

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Comptroller General of the United States

We have audited the accompanying statements of financial position of the General Accounting Office, an agency of the legislative branch of the government of the United States of America, as of September 30, 1991 and 1990 and the related statements of operations and financing sources and of changes in financial position for the years then ended. These financial statements are the responsibility of the General Accounting Office's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the financial audit requirements of *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as an integral part of our examination, we issued separate reports that describe the scope of our review and findings related to internal accounting controls and compliance with laws and regulations. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of the General Accounting Office at September 30, 1991 and 1990 and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles as prescribed in title 2 of the General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies*.

*Pricewaterhouse*

Washington, D.C.  
December 18, 1991



# FINANCIAL STATEMENTS

## U.S. General Accounting Office Statement of Financial Position as of September 30, 1991 and 1990

<i>Dollars in Thousands</i>	<i>1991</i>	<i>1990</i>
<b>Assets</b>		
Funds with U.S. Treasury	\$ 66,073	\$ 47,811
Future appropriations due	27,481	24,664
Travel and other advances	800	1,027
Accounts receivable	2,636	4,037
Supplies inventory	671	509
Building and land, net of \$1,880 and \$1,253 accumulated depreciation, respectively	14,976	15,602
Building improvements, net of \$5,106 and \$2,178 accumulated depreciation, respectively	9,666	5,128
Furniture and equipment, net of \$12,119 and \$9,717 accumulated depreciation, respectively	14,886	10,161
<b>Total Assets</b>	<b>\$137,189</b>	<b>\$108,939</b>
<b>Liabilities</b>		
Salaries and benefits	\$ 18,861	\$ 16,495
Employee travel	1,792	2,029
Accounts payable	12,929	11,414
Other liabilities	5,825	6,571
Accrued annual leave	25,858	23,324
<b>Total Liabilities</b>	<b>\$ 65,265</b>	<b>\$ 59,833</b>
<b>Net Assets</b>	<b>\$ 71,924</b>	<b>\$ 49,106</b>

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

**U.S. General Accounting Office**  
**Statement of Operations and Financing Sources**  
**for Fiscal Years Ended September 30, 1991 and 1990**

<i>Dollars in Thousands</i>	<i>1991</i>	<i>1990</i>
<b>Operating Expenses</b>		
Salaries and benefits	\$299,848	\$273,291
External training	2,672	2,132
Travel	20,377	17,900
Rent, communications and utilities	24,797	21,290
Computer and other ADP services	17,219	15,869
Other contract services	18,822	20,245
Supplies and materials	4,573	4,644
Printing and document copying	4,055	3,685
Depreciation	6,703	5,636
Other	1,383	760
<b>Total Operating Expenses</b>	<b>\$400,449</b>	<b>\$365,452</b>
<b>Financing Sources</b>		
Appropriations expended	\$388,191	\$362,887
Funds to be provided by future appropriations	2,817	463
Rents, reimbursable audits and other reimbursable services	11,570	10,684
Less amounts remittable to U.S. Treasury	(2,129)	(8,582)
<b>Total Financing Sources</b>	<b>\$400,449</b>	<b>\$365,452</b>

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



**U.S. General Accounting Office**  
**Statement of Changes in Financial Position**  
**as of September 30, 1991 and 1990**

<i>Dollars in Thousands</i>	<i>1991</i>	<i>1990</i>
<b>Sources of Funds</b>		
Expended appropriations and other financing sources	\$ 400,449	\$ 365,452
Increase in capitalized and unexpended appropriations	22,818	487
Increase in liabilities	5,432	6,772
<b>Total Sources of Funds</b>	<b>\$428,699</b>	<b>\$372,711</b>
<b>Funds Used</b>		
Operating expenses	\$400,449	\$ 365,452
Adjustments to funds used:		
Depreciation and amortization	(6,703)	(5,636)
Loss on disposal of furniture and equipment	(46)	(51)
Increase in receivables, advances, and future appropriations due	1,189	1,977
Increase in supplies inventory	162	44
Acquisition of furniture and equipment, and building improvements	15,386	9,883
<b>Total Uses of Funds</b>	<b>\$410,437</b>	<b>\$ 371,669</b>
<b>Net Increases in Funds</b>	<b>\$ 18,262</b>	<b>\$ 1,042</b>
<b>Funds with U.S. Treasury:</b>		
Beginning of year	47,811	46,769
End of year	\$ 66,073	\$ 47,811

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

# NOTES TO FINANCIAL STATEMENTS

## ■ Note 1. The Entity

The accompanying financial statements present the financial activity of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The activity presented relates to the execution of GAO's congressionally approved budget. GAO's budget consists of an appropriation covering salaries and expenses and a building expenditure appropriation. The financial statements do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as borrowing, which may in part be attributable to GAO.

## ■ Note 2. Summary of Significant Accounting Policies

### *Basis of Accounting*

Under the authority of the Budget and Accounting Act of 1950, GAO published title 2 of its *Policy and Procedures Manual for Guidance of Federal Agencies*, which codified what it considered to be the relevant generally accepted accounting principles to be implemented by all federal departments and agencies in the preparation of their annual financial statements. In 1991, GAO participated with the Office of Management and Budget (OMB) and the Treasury Department in the establishment of the Federal Accounting Standards Advisory Board (FASAB). The FASAB was organized to make recommendations regarding the accounting standards to be implemented by departments and agencies. The resulting standards will be concurrently issued by GAO and OMB. In the interim, and in accordance with FASAB's recommendation that agencies continue to prepare financial statements using their current accounting policies, GAO continues to prepare its financial statements based upon the accounting principles included in title 2.

Title 2 principles differ from budgetary reporting principles. The differences relate principally to the capitalization and depreciation of buildings, improvements, and furniture and equipment and the recognition of other long-term assets and liabilities in the accompanying financial statements. Also, for financial statement purposes, budgetary appropriations are realized as a financing source as accrued expenses are recognized.

### *Accounts Receivable*

GAO's accounts receivable are due principally from federal government corporations and other federal agencies for audit and other reimbursable services.

### *Fixed Assets*

GAO's headquarters building in Washington, D.C. is depreciated over 25 years.

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

### *Annual, Sick, and Other Leave*

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

## ■ Note 3. Net Assets and Appropriations

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

### Composition of Net Assets

<i>Dollars in Thousands</i>	<i>1991</i>	<i>1990</i>
Building and land	\$14,976	\$15,602
Other capitalized assets	24,704	14,980
Unliquidated obligations	28,479	18,524
Unobligated appropriations	3,765	0
<b>Total Net Assets</b>	<b>\$71,924</b>	<b>\$49,106</b>



The increase in other capitalized assets from fiscal year 1990 to 1991 of \$9,724,000 resulted from purchases of furniture, equipment and improvements less depreciation. Unliquidated obligations represent purchase commitments. Unobligated appropriations in fiscal year 1991 of \$3,765,000 resulted from changes required by the National Defense Authorization Act for fiscal year 1991 (Public Law 101-510, dated November 5, 1990). With the enactment of this legislation, Treasury permitted agencies to retain both their unliquidated obligations and unobligated appropriations for five years after the year of availability.

The following schedule reconciles operating expenses, as included in the Statement of Operations and Financing Sources, to budgetary expenditures. This reconciliation is presented to facilitate an understanding of the relationship and differences between information presented in the financial statements and budgetary information.

#### Reconciliation to Budgetary Accrued Expenditures

<i>Dollars in Thousands</i>	<i>1991</i>	<i>1990</i>
Total operating expenses as included in Statement of Operations and Financing Sources	\$ 400,449	\$ 365,452
Expenses financed by charges to agencies and retained by GAO	(9,441)	(2,102)
Increase in annual leave and retirement benefit expenses recognized in financial statements but not in budgetary expenditures	(2,817)	(463)
Net effect of capitalizing assets in the financial statements which are recognized as expenditures for budgetary purposes	9,110	4,380
<b>Total Budgetary Accrued Expenditures</b>	<b>\$397,301</b>	<b>\$367,267</b>

The following schedule reconciles GAO's congressionally approved appropriations to budgetary accrued expenditures:

#### Reconciliation to Appropriations

<i>Dollars in Thousands</i>	<i>1991</i>	<i>1990</i>
Current year appropriations	\$409,242	\$363,661
Restoration of prior year budget authority	1,779	0
Net effect of appropriations withdrawn	0	(277)
(Increase) Decrease in unliquidated obligations	(9,955)	3,833
Unobligated appropriations	(3,765)	0
<b>Total Budgetary Accrued Expenditures</b>	<b>\$397,301</b>	<b>\$367,267</b>

#### ■ Note 4. Funds With U.S. Treasury

GAO does not maintain cash in commercial bank accounts. Rather, its receipts and disbursements are processed by the U.S. Treasury. The balance of funds with the U.S. Treasury represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services which have not been received.

#### ■ Note 5. Future Appropriations Due

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

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**■ Note 6.  
Leases**

*Operating Leases*

GAO leases additional office space from the General Services Administration and the State Department and has entered into various other operating leases for office communication and ADP equipment. These leases are cancelable without penalty. Lease costs for office space and equipment for fiscal years 1991 and 1990 amounted to approximately \$17,600,000 and \$15,100,000, respectively.

*Capital Leases*

GAO has entered into several noncancelable capital leases under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. Lease payments of approximately \$519,000 remained to be paid on these leases as of September 30, 1991. When GAO enters into these leases, the value of the future lease payments is capitalized and recorded as an other liability.

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**■ Note 7.  
Retirement  
Benefits**

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes matching contributions to the CSRS, FERS, and FICA and matches employee contributions to the savings component of FERS up to 5 percent of basic pay but has no liability for future payments to employees under these programs. GAO's costs associated with its employee retirement programs during fiscal years 1991 and 1990 amounted to approximately \$31,920,000 and \$28,130,000, respectively.

Comptrollers General and their surviving beneficiaries who qualify and so elect are paid retirement benefits by GAO under a separate program. These benefits are paid from current year appropriations. Since GAO is responsible for future payments under this program, the estimated present value of future payments is included in future appropriations due and other liabilities. The estimated present value of future payments was \$1,623,000 as of September 30, 1991 and \$1,340,000 as of September 30, 1990.

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**■ Note 8.  
Contingent  
Liabilities**

GAO has certain claims and lawsuits pending against it. Where claims are expected to result in payments, and the payment amounts can be reasonably estimated, appropriate provision has been included in the accompanying financial statements. In the opinion of management and legal counsel, the resolution of other claims and lawsuits will not materially affect the financial position or operations of GAO.

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**■ Note 9.  
Trust and Other  
Governmentwide  
Functions**

GAO is responsible for conducting two trust functions for the federal government: (1) administering Davis-Bacon Act receipts and payments and (2) administering assets of Americans who die abroad. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trusts. Trust assets under administration by GAO aggregated approximately \$5,543,000 on September 30, 1991. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1991 receipts and disbursements in these funds amounted to \$1,940,000 and \$930,000, respectively. Since these trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying financial statements.

In addition to the trust activities, GAO is also responsible for authorizing the payment of certain adjudicated and administratively settled claims against the federal government from a special appropriation maintained by the U.S. Treasury. During fiscal years 1991 and 1990, GAO authorized approximately \$506,000,000 and \$527,000,000, respectively, in claims for payment from this special appropriation. Since these payments do not relate to GAO's operations, they are not included in the accompanying financial statements.



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## REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROLS

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Comptroller General of the United States

We have audited the financial statements of the General Accounting Office (GAO) as of and for the year ended September 30, 1991, and have issued our report thereon dated December 18, 1991. We conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit of the financial statements of the GAO for the year ended September 30, 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

GAO's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles as prescribed in title 2 of the General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies*.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant policies and procedures relative to GAO's internal control structure into the following categories: Treasury and appropriations; revenues and receivables; travel expenses; payables and disbursements; payroll; employee advances; property and inventory; Comptrollers General retirement plan; and trust functions.

For all categories listed above, we obtained an understanding of the design of relevant policies and procedures which comprise the control structure, determined whether they have been placed in operation, and assessed control risk.

A material weakness is a reportable condition in which the design or operation of elements of the internal control structure do not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that would be material weaknesses as defined above. We noted no matters involving the internal control structure and its operation that we consider to be a material weakness as defined. However, we noted certain matters involving the internal control structure and its operation that we have reported to management in a separate letter.

This report is intended for the information of GAO's management. This is not intended to limit the distribution of this report, which is a matter of public record.

*Priscilla Watehouse*

Washington, D.C.  
December 18, 1991

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# REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

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Comptroller General of the United States

We have audited the financial statements of the General Accounting Office (GAO) as of and for the year ended September 30, 1991, and have issued our report thereon dated December 18, 1991. We conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Assuring compliance with laws and regulations applicable to GAO is the responsibility of GAO's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of GAO's compliance with provisions of applicable laws and regulations noncompliance with which could have a material effect on the financial statements of GAO. In addition, management has elected to comply with the spirit and intent of the Federal Managers' Financial Integrity Act, and at their request we have reviewed their compliance with the process required by the act for evaluating and reporting on internal control and accounting systems. However, our objective was not to provide an opinion on overall compliance with the previously identified provisions of such laws and regulations.

The results of our tests indicate that, with respect to the items tested, GAO complied, in all material respects, with the provisions of the laws and regulations referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that GAO had not complied, in all material respects, with those provisions.

This report is intended for the information of GAO's management. This is not intended to limit distribution of this report, which is a matter of public record.

*Price Waterhouse*

Washington, D.C.  
December 18, 1991



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