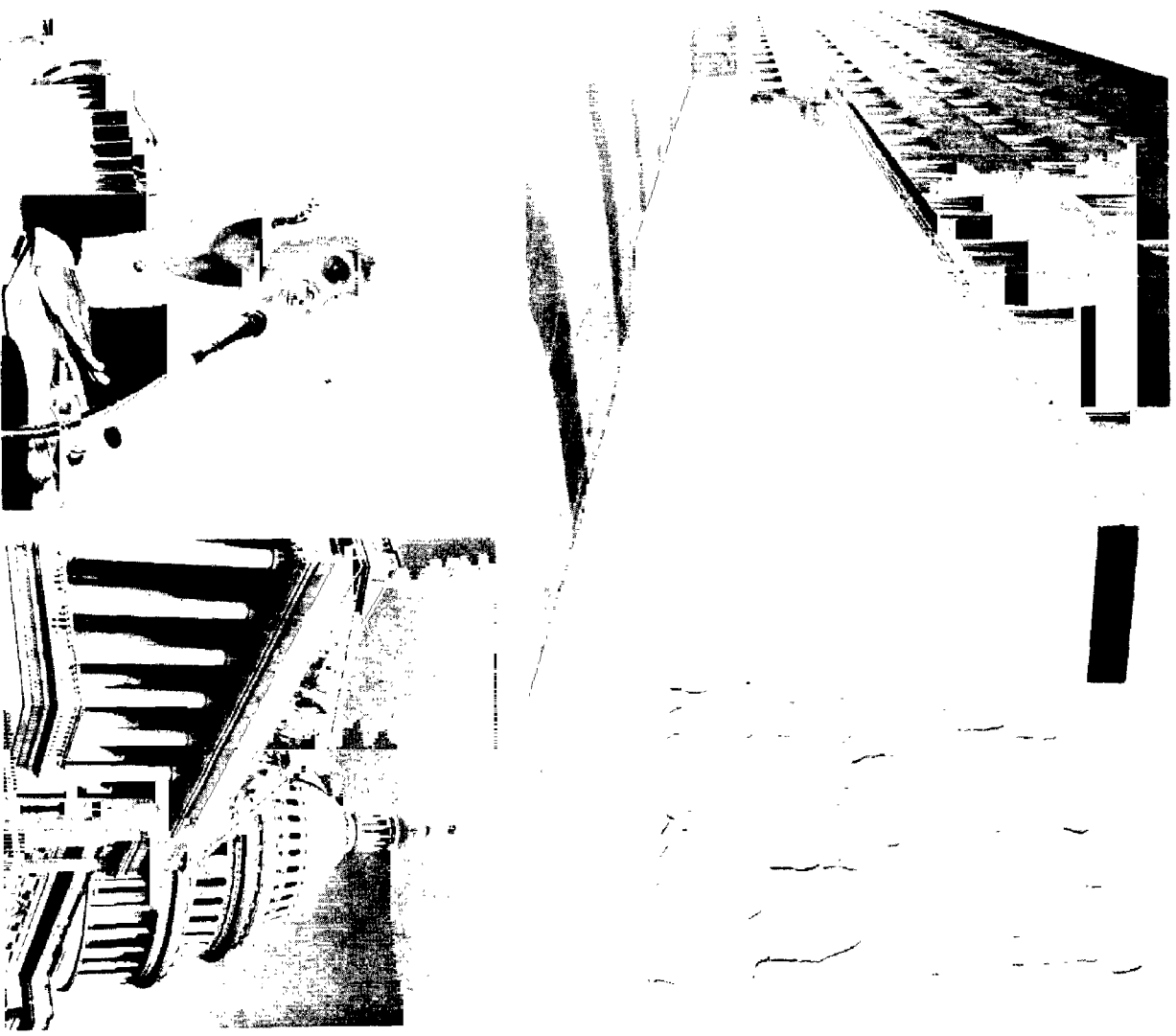


GAO

*Comptroller  
General's  
1993 Annual Report*



*United States General Accounting Office*

*058892/150666*

---

## **Table of Contents**

---

<b><i>A Message from the Comptroller General</i></b>	<b><i>1</i></b>
<i>A review of GAO's performance and a summary of major issues on which GAO assisted the Congress.</i>	
<b><i>Highlights of GAO Reports and Testimony</i></b>	<b><i>10</i></b>
<i>A timeline of products reflecting the variety of this year's accomplishments.</i>	
<b><i>Overview of Operations and Financial Management</i></b>	<b><i>37</i></b>
<i>An overview of GAO's operations and principal statements for the year ended September 30, 1993, along with the independent auditors' report.</i>	

---

### ***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.***



---

# A Message from the Comptroller General



**T**he arrival of a new Congress and a new Administration made 1993 a particularly significant year for GAO. Proposals arose for major reforms and changes in policy agendas—even a challenging new call for “reinventing government.”

GAO continued in its role of meeting Congress’s need for reliable information and analysis pertaining to federal programs and policy issues. We explored the full range of important issues facing our legislators, such as national health care reform, the North American Free Trade Agreement, the Pentagon’s downsizing and base-closure efforts, the restructuring of the Department of Agriculture, and the President’s National Performance Review. In two multi-volume publications—our Transition Series and our High-Risk Series—we summarized our findings on major problems confronting federal agencies, as well as the economic and management issues facing Congress and the new Administration. GAO continued to focus on strengthening financial management and improving information systems across government, reviewing operations at several departments and agencies, including the Internal Revenue Service, the Department of the Army, and the Customs Service.

As the external environment changed, we also made several internal changes to increase our own efficiency and allow us to do more with less. We continued the hiring freeze begun in 1992, and in October 1993, offered “early out” and other retirement incentives to help reduce the size of our work force. Following an internal review of our organization and consultation with Congress, we decided to restructure our headquarters divisions and consolidate or close a number of field offices. We are continuing to invest in technology and training and, with our customers’ needs in mind, are reviewing our mix of work and work processes. Our goal is a smaller but no less capable GAO.

## **GAO’s Performance and Impact**

In fiscal year 1993, we continued to produce reports and testimony for Congress, along with numerous recommendations for financial savings and management

---

---

improvements throughout the federal government. We produced 1,305 audit and evaluation products, including 979 reports to Congress and agency officials, 136 formal congressional briefings, and 190 pieces of congressional testimony delivered by 64 GAO executives. We also produced nearly 4,000 legal decisions.

Our work often contributes to legislative and executive actions that result in significant financial benefits to the government. These benefits include budget reductions, costs avoided, appropriation deferrals, and revenue enhancements that are either directly attributable to or notably influenced by our work. In 1993, measurable financial benefits to the government from GAO's work totaled about \$14.5 billion. Specific examples of these benefits are featured in the section on GAO's work in key issues.

Many of our accomplishments are not easily measured in monetary terms. This year, for example, we contributed to 190 important improvements in government operations. Here are just five examples:

- Stronger regulation of the financial services industry helped protect investors from securities fraud.
- Congress enacted legislation preventing state-run Medicaid programs from establishing long-term care insurance projects that could potentially increase Medicaid costs.
- In response to our work, Congress directed the Agency for International Development to improve program management over U.S. aid to Poland and Hungary to foster more effective use of the aid.
- In response to our work, the National Institutes of Health tightened procedures to ensure that government-sponsored research includes women where appropriate, and created an Office of Research on Women's Health to deal with women's health issues more proactively.
- The new Commissioner at the Internal Revenue Service (IRS) cited GAO's audit as the keystone of its efforts to improve financial management and to provide full accountability. IRS is now making progress in reducing errors, improving financial management, and modernizing its computer systems.

All told, we made more than 1,600 recommendations in fiscal year 1993. If the experience of recent years is a good predictor, about three out of four of these recommendations will be implemented within the next 4 years.

## **Quality Management**

Our total quality management (TQM) efforts continued to advance this year. Based on data collected from Members of Congress, their staffs, and our own employees, as well as an analysis of internal performance data, we decided to concentrate our TQM efforts on five key areas: (1) improving the quality of GAO's service to and communications with Congress on individual jobs, (2) reducing rework of GAO products, (3) improving internal communications, (4) strengthening internal teamwork, and (5) using technology more creatively to solve GAO problems. GAO is developing goals and efforts aimed at the first area and has established 3-year goals in the remaining areas to help ensure that we

provide quality products to our customers, and do so as efficiently as possible within a work environment that fosters trust, respect, and teamwork.

Fiscal year 1993 represented the second full year of our TQM effort. The experience of private sector organizations involved with TQM indicates that substantive and lasting change takes hold only after 5 or 6 years. In government, it may take as long as 10. Nevertheless, we are vigorously pursuing efforts to hasten the pace of improvements and have already experienced positive results in some areas. As is the case with most agencies, we face ever-growing demands and ever-tightening resources. Only through changing our ways of doing business will we be able to meet that challenge.

## **Human Resources**

Now more than ever, the American people want a smaller, more cost-effective government. We are doing our part by reducing the size of our organization. In recent years, our staff ceiling has been lowered, and we expect that over the next 2 years, funding constraints will bring it down even further. In August of this year, Congress approved "early out" and retirement incentives for our staff. Along with our year-end efforts to streamline our regional office structure, these incentives will help us reduce staffing levels in an orderly, well-managed fashion.

The most important issue regarding downsizing is how it is accomplished. If reductions are made haphazardly or too quickly, we stand to lose talented and experienced people, reducing the technical and subject-area expertise that has taken us years to develop. Such actions would also damage the gains we have made in building a diverse work force—one significantly more representative of American society than it was just 10 years ago.

During times of downsizing and reorganization, training and education become especially important. Our work requires that managers and staff alike be familiar with a wide range of methodologies and be able to work effectively in interdisciplinary teams. To support them, we focus our training investments in such diverse fields as financial management, information management, and logistics. For all evaluators and evaluator-related staff—including senior managers—80 hours of continuing professional education every 2 years is required to remain qualified to conduct audit or evaluation work. Recently, we also adopted a continuing education requirement for our attorneys.

## **INTOSAI**

Internationally, GAO continues to work with its counterpart institutions—an especially important pursuit given the dramatic political and economic changes taking place around the globe. The achievements of the Fourteenth International Congress of Supreme Audit Institutions (XIV INCOSAI), the world congress GAO hosted in October 1992, demonstrate that the members of the International Organization of Supreme Audit Institutions (INTOSAI) are prepared to meet these new challenges. Recent accomplishments include the adoption and publication of internationally accepted standards and guidelines for audits and internal controls, and the creation of new committees to address environmental auditing, program evaluation, and privatization.

*“Like most agencies, we face ever-growing demands and ever-tightening resources. Only through changing our ways of doing business will we be able to meet that challenge.”*

---

INTOSAI's Governing Board, which I will chair until the next INCOSAI in 1995, met in May 1993 to discuss a broad array of business and technical programs. Seventeen member countries participated in these highly productive discussions. INTOSAI committees on accounting standards, public debt auditing, and technology made significant progress in developing standards and guidelines that will be used by member institutions. Themes of cooperation, communication, and continuity—the key elements in building on past successes and further strengthening INTOSAI—were prominent in the many reports and discussions, and will contribute to our broader goal of improving government management throughout the world.

### **Summary of Work on Key Issues**

In 1993, Congress called upon GAO to work on some of the nation's most important issues. Following are highlights of GAO's work on some of them.

#### ***Health Care***

The effect of health care costs on the federal budget is dramatic. Our work this year focused on many of the approaches that have been suggested to curb rising health care costs. Our reports on German health care reform and on cost containment efforts in Rochester, New York, suggested that while universal health care is an achievable goal, it requires changes in the role of government, the structure of the health finance system, and the financial responsibilities of individuals and employers. Implicit in most proposals for cost containment is the move toward managed care; our report on Medicaid managed care showed that strong oversight is needed to ensure equal or improved access. Another of our reports explored the reasons prescription drugs cost less in Canada than in the United States.

Medicare and Medicaid, the primary public programs for financing health care, annually cost the federal government about \$214 billion, and state and local governments about \$61 billion. The Omnibus Budget Reconciliation Act of 1993 contains provisions based on our work, including reductions in payments for certain diagnostic services, anesthesia services, and home medical supplies, as well as a prohibition against physicians referring beneficiaries to facilities in which the physicians have ownership interest. We also reported on other issues affecting public health, including programs for bone marrow and organ transplants and the necessity of cataract surgery.

#### ***International Trade***

In 1993, we helped Congress consider the issues raised by trade negotiations between the United States and its major trading partners, including Canada, Mexico, the European Community, and Japan. Our two-volume report and testimony on the North American Free Trade Agreement (NAFTA) provided Members of Congress with objective and comprehensive analysis of the treaty's contents. We also provided analyses of NAFTA's potential effects on the economy, the environment, labor, and immigration.

Our reviews and testimony also played a central role in the legislative mandate for and the preparation of the Trade Promotion Coordinating Committee's first

*“Our work often contributes to legislative and executive actions that result in significant financial and nonfinancial benefits.”*

governmentwide strategic plan for export promotion, as well as specific initiatives to improve the efficiency and effectiveness of programs to promote and finance U.S. exports. Other work included assessments of international finance issues, and trade and investment opportunities in specific industrial sectors and countries. We also examined U.S. competitiveness issues, including an assessment of patent protection for U.S. firms in Japan, and a comparison of the business environments in the United States, Japan, and Germany.

### ***National Defense***

As the Department of Defense (DOD) moves toward building and supporting a smaller but effective fighting force, our reports and testimonies have been used extensively by Congress in its oversight of post-Cold War force structure, service roles and missions, and intelligence issues.

In 1993, we evaluated DOD's downsizing plans, analyzing the underlying assumptions of force structure decisions and assessing alternative ways to accomplish missions. Our review of the Secretary of Defense's recommendations and selection process for the Base Realignment and Closure Commission identified improvements that could be made in DOD's analytical framework and process—a process that recommended the closure of 130 bases and the realignment of 45 others, with savings projected at roughly \$2 billion annually. Our report on Navy carrier battle groups identified less costly options to satisfy many of the groups' traditional roles without increasing the risk to national security and our review of United Nations peacekeeping highlighted limits in the U.N.'s capacity to undertake and support such efforts. Further, we testified on our series of eight classified reports on the strategic nuclear triad. DOD is using our work in its review of strategic nuclear force structure requirements.

The long-range cost of acquiring technologically advanced weapon systems is staggering, especially so during a period of shrinking defense budgets. Our work on the Air Force's C-17 military transport program—citing cost increases, schedule delays, and technical problems identified during testing—was instrumental in the congressional decision to limit fiscal year 1993 production and reduce DOD's budget by \$658 million.

Further, we continued to identify opportunities to provide better and more cost-effective logistical support to military operations. We continued to monitor and suggest improvements to DOD inventory management practices—efforts that led Congress to cut nearly \$3 billion from the Pentagon's fiscal year 1993 budget. A review of DOD's fiscal year 1994 operations and maintenance budget identified potential reductions of nearly \$7 billion for unobligated balances, excess inventory, and overcharges to personnel for housing while on travel.

### ***Agriculture***

With the third-largest civilian departmental budget in the federal government, the U.S. Department of Agriculture (USDA) affects the lives of all Americans and millions of people around the world. The food and agriculture sector accounts for 17 percent of the gross national product, 20 million jobs, and 10 percent of U.S. export dollars. In 1993, our work focused on the need to restructure USDA and change certain features in agricultural commodity programs.

---

In a series of reports on the management and structure of USDA, we identified problems that, if corrected, could lead to greater efficiency, effectiveness, and cost savings. As a result, USDA is actively pursuing reorganization and streamlining initiatives. In September 1993, the Secretary of Agriculture announced plans to restructure USDA—reducing the number of agencies from 43 to 30 and eliminating at least 1,200 field offices—for a savings of about \$2.3 billion over the next 5 years. To completely revitalize USDA, however, Congress and the Administration will need to reach consensus on the Department's most important missions.

Our work on USDA commodity programs led to important recommendations for making both the sugar and peanut programs more responsive to market forces. Our analysis of the sugar program showed that it costs food manufacturers and consumers \$1.4 billion annually and that 42 percent of the benefits went to 1 percent of all sugar farms in 1991. Similarly, we found that the peanut program costs consumers between \$314 million and \$513 million annually. These findings led us to recommend that the Congress move both industries toward a more open market.

In addition, our analyses of USDA crop insurance programs resulted in administrative changes and cost savings. We reported on insurability and design problems and made suggestions that Congress incorporated into the Budget Reconciliation Act of 1993. The Congressional Budget Office estimates savings of \$501 million over the next 5 years based on these changes.

### ***Reinventing Government***

*“Reinventing government will be difficult, but our experience tells us it can be done.”*

Popular calls for “reinventing government” are only the latest expression of the need to refashion government structures and methods to fit the times. Over the years, we at GAO have become sufficiently familiar with government operations to understand the difficulty of accomplishing such large-scale change, but our experience tells us that it can be done.

Under the direction of the Vice President, the National Performance Review (NPR) has suggested reforms to make the federal government work better and cost less. In December 1993, we commented on the NPR's September 1993 report, which contained 384 major recommendations covering 27 federal agencies and 14 areas that cut across government, such as procurement and budgeting. The NPR report emphasized many of the basic themes we have stressed for years, including the need to strengthen management within agencies and to focus on results. We were not surprised, then, to find ourselves in agreement with most of the NPR recommendations. The ultimate success of so large an effort, however, will depend upon the detailed strategies and specific actions developed to implement the recommendations. Congress and the Administration will need to forge a strong partnership to build these strategies.

Congress can help ensure a long-term focus on management reform throughout government by holding federal managers accountable for results. The recently enacted Government Performance and Results Act of 1993—requiring agencies to develop strategic plans, identify outcome goals, and measure and report on progress—should provide Congress with the information it needs to determine if agencies are fulfilling their missions and meeting their objectives.



### ***The Federal Budget Deficit***

In fiscal year 1993, we continued to examine ways to effectively reduce the federal budget deficit and reviewed the structure of the budget, the budget process, the effects of the budget on government operations, and ways to improve policymakers' ability to make choices.

Our work on the economic effects of the deficit identified the need to shift federal spending from consumption to investment. Our work on investment provided criteria and analyses for congressional decisionmakers, and developed an approach for evaluating investment initiatives and alternatives aimed at improving long-term economic growth by increasing private sector productivity.

### ***Education and Employment***

To produce high-quality products and services that are competitive in a global economy, the United States must develop and maintain a highly skilled work force. We gave much attention, therefore, to studying the quality and financing of education and training, from preschool through college.

Our work in elementary and secondary education played an integral part in the debate on federal efforts to improve schools. Our report and testimony on systemwide reform were used in congressional deliberations over the redirection of federal resources to ensure improved education for all students. Our report on the funds allocation formula for the Chapter I program—the single largest federal elementary and secondary education program—provided an objective look at one of the most contentious education issues facing Congress.

Our work also contributed to changes made to the 1993 Omnibus Budget Reconciliation Act and the Higher Education Act of 1965—key legislation to provide financial assistance to postsecondary students. During deliberations about potential expansion of the Direct Student Loan Demonstration Program, we focused attention on the Department of Education's problems in administering the guaranteed student loan program and questioned the Department's capacity to operate the two programs concurrently. Our concerns contributed to the decision to gradually introduce a limited direct lending program over 5 years in lieu of full implementation. A number of other changes we suggested in the guaranteed student loan program will produce an estimated savings of more than \$1 billion over the next 4 years.

Information from our work on employment and training programs—151 programs in 14 departments and agencies totalling \$24 billion in fiscal year 1993 funding—is being used to address the need to streamline the nation's efforts to assist the unemployed. Our comprehensive overview of these programs was cited frequently by Congress and the Administration.

### ***Energy and Science***

The Department of Energy (DOE) continues to face difficult challenges. First is its new mandate to clean up and restore, rather than continue to build, the nuclear weapons complex. Others include worldwide concerns about nuclear proliferation, the passage of the Energy Policy Act, and heightened attention on the part of the new Administration on improving our economy through the

---

application of science and technology initiatives. This year, we at GAO continued our work on DOE management issues. Our report on DOE's Yucca Mountain repository project identified significant policy and management concerns, prompting Congress and other key players to call for an independent review of the nuclear waste disposal program. Our reports and testimony on the costs, scheduling, and financing problems of the Superconducting Super Collider helped focus the debate on cost increases for that \$11 billion program. Congress decided to terminate the project. GAO will monitor the costs and timeframes for termination.

### ***Financial and Information Systems Management***

Our financial audits of federal agencies continue to underscore the need for better accountability and improved financial systems to protect federal assets and avoid unnecessary losses. In 1993, we completed audits of the financial statements of a number of large federal entities and programs, including the Department of the Army, the Customs Service, IRS, the Department of Education's Federal Family Education Loan Program, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Pension Benefit Guaranty Corporation. These audits, most of which were required by the Chief Financial Officers Act of 1990, led to the following accomplishments, among others:

- The Army is addressing major unreconciled differences between its personnel and payroll systems that allowed almost 2,300 soldiers no longer on the rolls to be paid. Further, it has taken action to protect stored weapons and equipment from deterioration.
- IRS is modifying its methodology for determining taxes likely to be collected, after we produced estimates that were tens of billions of dollars lower than the approximately \$100 billion IRS had reported.
- The Customs Service has pledged to improve its internal controls and financial management and accounting systems. Our work showed that Customs relies heavily on importers and brokers to voluntarily assess and report the amount of duties, taxes, and fees owed on imported merchandise.
- Following our work, the Department of Education is changing its procedures to arrive at a more realistic loan loss allowance. We had noted that overly optimistic projections of loan defaults contributed to an almost \$3 billion shortfall in the Department's budget estimates for fiscal years 1993 and 1992.

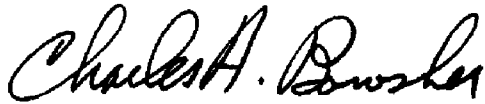
*“GAO's role has become far-ranging and highly complex. As the demands of Congress continue to evolve, so will our responsibilities.”*

Currently, the federal government spends about \$25 billion annually on acquiring and maintaining computer systems to support operations. How agencies go about planning for and obtaining these resources is crucial to performance. Based on our work, agencies have started to focus their systems efforts on strategic uses of technology in achieving agency missions. GAO reports on information management and technology resulted in financial savings of almost \$1 billion during fiscal year 1993.

### **A Continuing Responsibility**

In nearly three-quarters of a century, GAO's role has become far-ranging and highly complex. In the 1920s, we checked government vouchers. In the 1990s,

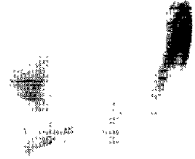
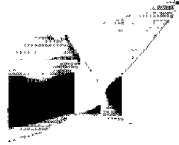
we evaluate federal programs and make recommendations that affect congressional policy deliberations. Scanning the list of "Highlights of GAO Reports and Testimony" that follows will give some indication of the range of our activities. We do not doubt that as time passes and the demands of Congress continue to evolve, so will our role. Based on the history of this institution and the dedication of its people, we expect to rise to whatever challenges emerge and to bring to the task our continuing best efforts.



Charles A. Bowsher  
Comptroller General  
of the United States



Faint, illegible text or markings in the upper right quadrant.



Faint, illegible text or markings in the middle right quadrant.

Faint, illegible text or markings in the middle right quadrant.

Faint, illegible text or markings in the middle right quadrant.

Faint, illegible text or markings in the middle right quadrant.

Faint, illegible text or markings in the middle right quadrant.

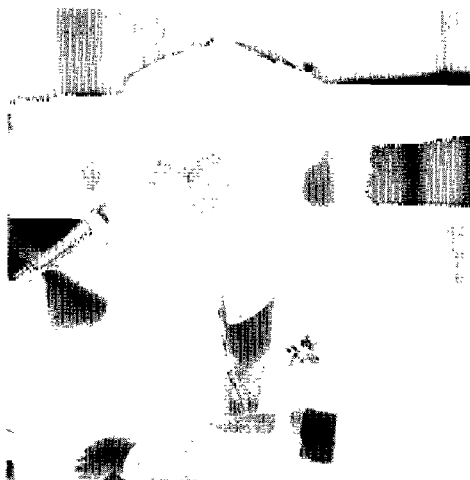


---

# *Highlights of GAO Reports and Testimony*

**I**n fiscal year 1993, GAO prepared 884 written reports to Congress, congressional committees, and individual Members; 136 congressional briefings; 95 reports to federal agency officials; and thousands of legal decisions. In addition, GAO testified 190 times before congressional committees.

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



## ■ FINANCIAL AUDIT: Expenditures by Nine Independent Counsels

As of March 31, 1992, nine independent counsels appointed since 1985 spent an estimated \$43 million on several investigations, but the accuracy and completeness of those expenditures cannot be verified because of poor records and serious internal control weaknesses. Some expenditures were inconsistent with laws and regulations. (AFMD-93-1)

## ■ WOMEN'S HEALTH: FDA Needs to Ensure More Study of Gender Differences in Prescription Drug Testing

The Food and Drug Administration should ensure that the drug industry consistently includes sufficient numbers of women in drug testing to identify gender-related differences in drug response and

that such differences are explored and studied. One-quarter of the drug manufacturers in one Pharmaceutical Manufacturers Association survey, for example, reported that they make no effort to recruit representative numbers of women for drug trials, and more than 40 percent said that FDA had not asked them to include women. (HRD-93-56)

## ■ AV-8B PROGRAM: Aircraft Sales to Foreign Government to Fund Radar Procurement

In 1990, the Navy embarked on a \$401 million program to add radar to the AV-8B aircraft. The service sold two TAV-8B aircraft to Italy from Department of Defense stocks to buy the radar—a practice that is not an authorized use of foreign military proceeds. (NSIAD-93-24)

# NOVEMBER 1992

■ 73 Reports to Congress  
■ 0 Testimonies

## ■ BONE MARROW TRANSPLANTS: National Program Has Greatly Increased Pool of Potential Donors

While the National Marrow Donor Program has expanded its bone marrow registry from nearly 73,000 donors at the end of 1989 to about 561,000 donors in April 1992, the proportion of minorities on the registry remains considerably less than their proportion of the U.S. population. Although the number of bone marrow transplants increased, the proportion of searches that culminated in transplants did not change markedly from 1987 to mid-1991. (HRD-93-11)

## ■ CHILD CARE: States Face Difficulties Enforcing Standards and Promoting Quality

Tight fiscal conditions have weakened the ability of many states to enforce standards and improve quality, although federal grants to states to help subsidize child care centers and promote

quality care require assurances that providers are meeting minimum health and safety standards. Most state officials believe their own enforcement efforts could be improved with technical assistance and more information about promising approaches in other states. The Department of Health and Human Services should assess how well states expand the amount of service—and improve quality—given the states' current resources. (HRD-93-13)

## ■ AVIATION SAFETY: Increased Oversight of Foreign Carriers Needed

Federal Aviation Administration guidance allows close inspections of foreign carriers when FAA finds or suspects serious safety concerns. However, in three recent cases, FAA discovered serious structural cracks and corrosion and removed aircraft from service, but made no effort to determine whether other planes operated by the same

carriers were safe. In another instance, FAA did not act promptly when alerted by the Canadians to serious deficiencies uncovered in Mexican aircraft during an in-depth inspection. (RCED-93-42)

## ■ AVIATION SAFETY: New Regulations for Deicing Aircraft Could Be Strengthened

Six months after the March 1992 crash of a USAir flight at LaGuardia Airport, in which 27 people were killed during an unsuccessful takeoff caused by ice buildup on the plane's wing, FAA issued tougher regulations on airline ground operations during icy conditions. GAO has concerns, however, because (1) pilots are allowed to check for ice from inside their aircraft even though obstructed views, distance, and poor lighting could make this difficult and (2) regulations exempt commuter airlines, which are also vulnerable to icy conditions. (RCED-93-52)

## ■ GENERAL SERVICES ADMINISTRATION: Increased Direct Delivery of Supplies Could Save Millions

Millions could be saved each year if GSA had suppliers ship more orders directly to customer agencies. GAO estimates that had GSA maximized direct deliveries on its total sales for the one-year period ending February 1991, customer agencies could have saved as much as \$107 million annually, in addition to a one-time GSA saving of as much as \$240 million through a reduction in inventory investment. GAO questions whether GSA should continue to run its depots at current levels, suggesting instead that it reduce its operational role and become more of a central supply management agency, providing governmentwide leadership and setting policy. (GGD-93-32)

## ■ PENSION PLANS: Hidden Liabilities Increase Claims Against Government Insurance Program

The federal government's exposure to unfunded liabilities in private pension plans is much larger than the plans have indicated in their

annual reports to the Internal Revenue Service. Plan sponsors with financial difficulties know that the Pension Benefit Guaranty Corporation will protect the guaranteed pensions of their workers no matter how large the unfunded liabilities in their plans. PBGC has few tools to control its exposure to hidden liabilities. While PBGC could benefit from additional tools, such tools would impose costs on plan participants, plan sponsors, or the federal government. (HRD-93-7)

## ■ VA HEALTH CARE: Medical Centers Are Not Correcting Identified Quality Assurance Problems

Department of Veterans Affairs medical centers have had mixed success in resolving the quality assurance deficiencies noted by GAO and VA's Inspector General in earlier audits. Problems persist in reporting and investigating patient incidents and in documenting the supervision of residents. Although VA is undertaking several systemwide initiatives to bolster its quality assurance programs, success depends on VA ensuring that medical centers correct identified problems. (HRD-93-20)

## ■ WEAPONS ACQUISITION: A Rare Opportunity for Lasting Change

The new era in national security affords an opportunity to view persistent weapon system problems differently. Drawing on 15 years of work, GAO identifies a series of problems often overlooked by reforms and frames the challenges that decisionmakers face in dealing with them. (NSIAD-93-15)

## ■ MISSION-CRITICAL SYSTEMS: Defense Attempting to Address Major Software Challenges

Billions of dollars in weapons and command, control, communications, and intelligence systems depend on high-performance, correctly functioning, real-time computer systems. Yet the Pentagon's mission-critical systems are plagued by long-standing software development problems, including cost, schedule, and performance shortfalls. Whether Defense's two major efforts—the software action plan working group and the Corporate Information Management initiative—will solve its formidable software problems is uncertain. (IMTEC-93-13)



# JANUARY 1993

■ 46 Reports to Congress  
☞ 4 Testimonies



## MAJOR ISSUES FACING A NEW CONGRESS AND A NEW ADMINISTRATION

*Testimony by the Comptroller  
General of the United States,  
Charles A. Bowsher*

This testimony is based on GAO's 1992 Transition Series, a set of 28 reports summarizing GAO's findings on major problems confronting the federal government, as well as economic and management issues facing Congress and the incoming administration. One cluster of reports addresses broad policy issues affecting the federal government and its relationship to the economy. Another group addresses issues affecting specific federal agencies. A third group looks at cross-cutting management issues, such as financial management and information management. (T-OCG-93-1)

## HIGH-RISK SERIES: GOVERNMENT MANAGEMENT— REPORTS ON 17 HIGH- RISK AREAS

*Testimony by the Comptroller  
General of the United States,  
Charles A. Bowsher*

GAO's High-Risk program identifies those high-dollar government programs most vulnerable to fraud, waste, abuse, and mismanagement. This testimony summarizes the High-Risk Series, which (1) examines the status of federal efforts to identify and correct problems in these 17 especially vulnerable areas, and (2) divides them into three main categories: lending and insuring, contracting, and accountability. (T-OCG-93-2)

## GENERAL SERVICES ADMINISTRATION: Actions Needed to Stop Buying Supplies From Poor-Performing Vendors

Between fiscal years 1988 and 1991, GSA awarded contracts worth more than \$1 billion to at least 285 vendors whose products repeatedly failed to meet contractor specifications and/or delivery schedule requirements. This occurred primarily because GSA (1) lacks complete and readily usable data on vendors' past contract performance; and (2) has not consistently stressed product quality, on-time delivery, or vendor capability and performance in awarding and administering supply contracts. (GGD-93-34)

## OPERATION DESERT STORM: Army Not Adequately Prepared to Deal With Depleted Uranium Contamination

A number of U.S. combat vehicles were contaminated by depleted uranium during the Persian Gulf War after being struck by munitions or when ammunition stored on board was ignited by accidental fires. Although the Army's policy is to minimize individuals' exposure to radiation, it has not effec-

tively educated its personnel about the hazards of depleted uranium contamination or about proper safety measures. The Army also lacks a formal plan to ensure that contaminated vehicles are decontaminated, disposed of, and repaired in an efficient way. (NSIAD-93-90)

**■ STUDENT TESTING:  
Current Extent and  
Expenditures, With Cost  
Estimates for a National  
Examination**

Recent proposals focus unprecedented attention on the idea of a national examination for elementary and secondary students, yet little information exists either on the present extent and cost of testing or on the likely cost of a national examination system. GAO found that students do not seem to be overtested today. It estimated that student testing cost about \$516 million nationwide in 1990-1991 and that a national examination, depending on the method employed, could cost between \$160 and \$330 million annually. (PEMD-93-8)

**■ FINANCIAL  
MANAGEMENT:  
Poor Internal Control Has  
Led to Increased  
Maintenance Costs  
and Deterioration of  
Equipment**

Despite having spent more than \$1 billion in fiscal year 1991 to overhaul weapons and equipment, the Army may be wasting millions of dollars because of poor internal controls, including physical safeguards, and inadequate systems that fail to protect weapons and equipment from deterioration and theft during shipments to depots and during routine maintenance. (AFMD-93-8)

**■ HAZARDOUS WASTE:  
Much Work Remains to  
Accelerate Facility  
Cleanups**

The Environmental Protection Agency can force businesses with hazardous waste operations to clean up waste that has contaminated the environment, but of about 3,400 facilities suspected of leaking dangerous material as of June 1992, only 43 had

implemented comprehensive cleanup measures. This GAO report examines (1) the status of EPA's corrective action program, (2) the funding that has been made available for the corrective action program, and (3) the usefulness of the data used to determine overall costs. (RCED-93-15)

# FEBRUARY 1993

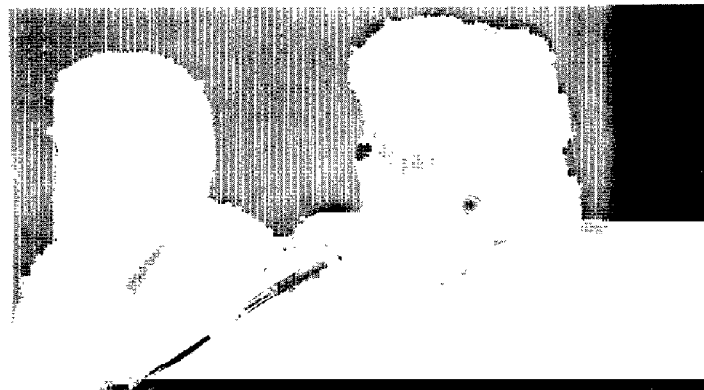
62 Reports to Congress  
20 Testimonies

## ■ BANK AND THRIFT REGULATION: Improvements Needed in Examination Quality and Regulatory Structure

Examinations of banks and thrifts were too limited to fully identify and determine the extent of deficiencies affecting safety and soundness. This impeded early warnings of weaknesses and reduced opportunities to minimize losses to the insurance funds. Overlapping responsibilities and inconsistent practices among the four regulators further hindered the efficiency and effectiveness of the regulatory process. (AFMD-93-15)

## ■ RESERVE FORCES: Aspects of the Army's Equipping Strategy Hamper Reserve Readiness

Although Army Reserve and National Guard units are much better equipped than they were a decade ago, substantial equipment shortages persist. Shortages of major equipment items totaling \$13.7 billion remain, including some items considered essential to the reserves' wartime missions. (NSIAD-93-11)



## ■ PRESCRIPTION DRUGS: Companies Typically Charge More in the United States Than in Canada

*Testimony by the Director of Health Financing and Policy Issues, Janet L. Shikles*

As public debate about health care costs intensifies, congressional attention focuses on ways to curb the upward spiral of prescription drug prices. Manufacturers charge less for many drugs in Canada than in the U.S. and the Canadian approach to regulating prices contributes to price differentials. This testimony describes the purpose and structure of Canada's Patented Medicine Prices Review Board and summarizes evidence about the effects of Board actions on prices of new drugs, price increases for existing drugs, and pharmaceutical research and development. (T-HRD-93-5)

## ■ NAVY CARRIER BATTLE GROUPS: The Structure and Affordability of the Future Force

With mounting budget pressures, a reduced threat environment, competing priorities, and affordability concerns dominating the debate over defense issues, alternatives to the Navy's 12 aircraft carriers and their battle groups could save tens of billions of dollars. GAO believes the Department of Defense and Congress must agree on the size and affordability of the carrier force required to meet national defense goals—including the consideration of other options—before a commitment is made to build another nuclear carrier. (NSIAD-93-74)



### STUDENT ACHIEVEMENT STANDARDS AND TESTING

*Testimony by the Assistant Comptroller General for Program Evaluation and Methodology,  
Eleanor Chelimsky*

In 1992, the National Council on Education Standards and Testing proposed a national system of standards and assessments as the cornerstone of an overall approach to improving precollege education. GAO examines Canada's experience with large-scale testing programs and addresses (1) how standards were set, by whom, and at what level; (2) what tests were used to assess whether standards were met; (3) what methods were used to ensure standards were taken seriously; (4) what safeguards were used to prevent misuse of tests; and (5) the extent to which standards and assessments

have improved teaching and learning. (T-PEMD-93-1)

### ENERGY MANAGEMENT: High Risk Area Requires Fundamental Change

*Testimony by the Director of Energy and Science Issues,  
Victor S. Rezendes*

Two important management changes have been initiated at the Department of Energy: (1) DOE's reorganization to instill accountability and (2) procurement reforms to bolster contractor oversight. But fundamental DOE weaknesses, including poor communication with field offices and inadequate technical and administrative skills among DOE workers, are undermining the success of these initiatives. Aggressive action is needed to overcome these obstacles. (T-RCED-93-7)

### AIRLINE COMPETITION: Strategies for Addressing Financial and Competitive Problems in the Airline Industry

*Testimony by the Director of Transportation Issues,  
Kenneth M. Mead*

While deregulation of the domestic airline industry benefited U.S. consumers

through lower fares and more frequent service on many routes, some airlines now face serious financial problems. A strategy for reviving the ailing industry should include improving airlines' access to capital and international markets, reducing barriers to competition, and examining airline pricing practices. (T-RCED-93-11)

### STRATEGIC BOMBERS: Adding Conventional Capabilities Will be Complex, Time Consuming, and Costly

At the end of the Cold War, the Air Force redefined the role of its bomber force from one focused on nuclear war to one equipped to carry out a variety of conventional missions—a scenario spelled out in its June 1992 "Bomber Roadmap." The Air Force estimates that modifying and equipping the B-1B and B-52 bombers with conventional capabilities will cost about \$3 billion, but this estimate is understated by billions of dollars. In this report, GAO discusses the operational and financial challenges that will need to be addressed in making the changeover. (NSIAD-93-45)

# MARCH 1993

■ 76 Reports to Congress

■ 44 Testimonies

## ■ FINANCIAL AUDIT: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement

GAO identified material weaknesses in the Department of Education's ability to obtain reliable data on the GSLP, including inadequate oversight of guaranty agencies and lenders and deficiencies in the Department's controls to ensure the accuracy of its financial and other program data. GAO also identified serious problems in the program's structure, including conflicting roles of and incentives paid to guaranty agencies. (AFMD-93-20)

## ■ 1-DOLLAR COIN: Reintroduction Could Save Millions if Properly Managed

Reintroduction of the 1-dollar coin would save nearly \$400 million annually. Australia, Canada, Japan, and the major Western European countries all use coins for monetary transactions at or above the level for which Americans use the paper dollar. A successful conversion would require withdrawal of the dollar bill, which could be initially unpopular but ultimately, based on other

countries' experiences, relatively painless. (GGD-93-56)

## ■ TAX ADMINISTRATION: Erroneous Dependent and Filing Status Claims

Taxpayers erroneously claimed exemptions for an estimated 9 million dependents in 1988, improperly lowering their taxable incomes by about \$17 billion. GAO showed that almost three-fourths of the errors resulted from taxpayers misunderstanding whether they had provided enough support for dependents. Another 3 million taxpayers claimed the wrong filing status, primarily because they did not qualify as head of household. Based on these findings, GAO recommended a change in the tax law. (GGD-93-60)

## ■ PRIVATE PENSIONS: Protections for Retirees' Insurance Annuities Can Be Strengthened

Insurance regulators seized control of several large life insurance companies in 1991 because of solvency problems that raised concerns for the 3 million to 4 million retirees and beneficiaries

receiving annuities. This report assesses (1) state guarantee coverage of insurance annuities received by retirees from private pension plans and (2) federal regulation and oversight of private pension plans' selection of insurers providing annuity benefits. The report also discusses options for improving protection. (HRD-93-29)

## ■ MEDICAID: States Turn to Managed Care to Improve Access and Control Costs

*Testimony by the Director of Health Financing and Policy Issues, Janet L. Shikles*

States that have experimented with Medicaid "managed care" programs—widely viewed as one health care delivery approach that may yield dividends in patient access, quality of care, and cost savings—are reporting mixed results in achieving their objectives. Better measures of medical outcomes need to be developed and refined before the question of quality can be answered with any certainty. Furthermore, some experts dispute state claims of significant cost savings compared to fee-for-service programs. (T-HRD-93-10)



☛ **EARNED INCOME TAX CREDIT: Effectiveness of Design and Administration**

*Testimony by the Director of Tax Policy and Administration Issues, Jennie S. Stathis*

In 1990, Congress changed the qualifications for and increased the size of the earned income tax credit, partly to reduce the federal tax burden on low income working families with children. Since then, proposals have been introduced that would further boost the size of the credit to improve the economic situation of these families as well as working families without children. This testimony assesses the effectiveness of the earned income credit in achieving its objectives and discusses problems that the Internal Revenue Service has encountered in administering the credit. (T-GGD-93-20)

■ **ANTIARMOR WEAPONS ACQUISITION: Assessments Needed to Support Continued Need and Long-Term Affordability**

While the Soviet threat has diminished, the Pentagon has not performed sufficient analysis of its antiarmor needs and of alternatives for meeting its mission requirements. Although the Pentagon's acquisition regulations call for analyses at key milestones, many systems have not had a milestone review since the decline of the Soviet threat. (NSIAD-93-49)

☛ **MILITARY AIRLIFT: Status of the C-17 Development Program**

*Testimony by the Director of Systems Development and Production Issues, Louis J. Rodrigues*

Although C-17 cost trends continue to deteriorate and delivery schedules continue to slip, the Air Force is such a strong advocate for the development and production of the military transport that it appears to be unwilling or unable to objectively evaluate the program's progress and shortcomings. (T-NSIAD-93-8)

■ **ENERGY SECURITY AND POLICY: Analysis of the Pricing of Crude Oil and Petroleum Products**

In the first week after the August 1990 Iraqi invasion of Kuwait, crude oil prices in the United States rose by more than one-third, yet world inventories of crude oil were at their highest level since the late 1970s. This report (1) explains the pricing of crude oil and three products refined from it—gasoline, home heating oil, and jet fuel—under normal market conditions and during market shocks and (2) describes the federal government's authority to respond to disruptions in the oil supply and the government's use of this authority during the Persian Gulf War. (RCED-93-17)

☛ **SOVIET NUCLEAR WEAPONS: U.S. Efforts to Help Former Soviet Republics Secure and Destroy Weapons**

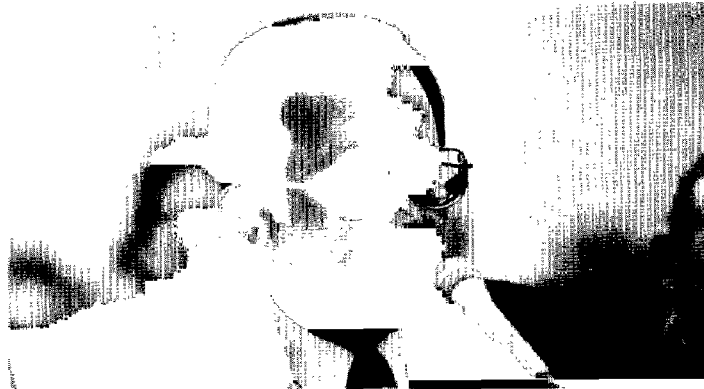
*Testimony by the Director of International Affairs Issues, Joseph E. Kelley*

Despite positive steps to help the former Soviet republics destroy their arsenals of nuclear weapons and convert highly enriched uranium into reactor fuel for possible sale

to the United States, significant gaps remain in the U.S. understanding of how to best deal with the legacy of the Soviet nuclear arsenal. Russia's request for U.S. help in building a material storage facility raised questions about cost and other issues, and the U.S. has deferred selecting an approach for the long-term disposition of Russian plutonium until more can be learned about various technologies.  
(T-NSIAD-93-5)

peanuts because a federal program initiated during the Great Depression controls the U.S. peanut supply and guarantees producers a minimum price that substantially exceeds the world market price. Economic studies and GAO's analysis show that the peanut program adds between \$314 million and \$513 million each year to the cost of peanuts.  
(T-RCED-93-18)

was revised in 1980 to achieve actuarial soundness and widespread participation so that other forms of disaster relief could be eliminated. Because the program is not achieving these goals, GAO examined how well the program meets basic conditions of insurability, and how efforts to expand participation have affected actuarial soundness.  
(T-RCED-93-12)



**PEANUT PROGRAM:  
Changes Are Needed to  
Make the Program  
Responsive to Market  
Forces**

*Testimony by the Director of  
Food and Agriculture Issues,  
John W. Harman*

American consumers  
overpay hundreds of millions  
of dollars each year for

**CROP INSURANCE:  
Federal Program Has Been  
Unable to Meet Objectives  
of 1980 Act**

*Testimony by the Director of  
Food and Agriculture Issues,  
John W. Harman*

The federal crop insurance  
program, which offers  
farmers protection from such  
risks as flooding and drought,



**DRINKING WATER:  
Key Quality Assurance  
Program is Flawed and  
Underfunded**

*Testimony by the Associate  
Director for Environmental  
Protection Issues,  
Peter Guerrero*

An acute funding shortage has severely affected the ability of states to monitor the safety of public drinking water, and the problem is compounded by the lack of mandatory federal standards for conducting sanitary reviews. GAO concludes that effective corrective measures will depend on resolving the funding problems affecting the Environmental Protection Agency's drinking water program. (T-RCED-93-31)

**AUTOMATED  
MEDICAL RECORDS:  
Leadership Needed to  
Expedite Standards  
Development**

U.S. health care practitioners continue to rely on a cumbersome, paper-based clinical records system that has remained largely unchanged for decades. Efforts to develop automated medical record standards have been stymied by a lack of leadership. More active federal involvement could speed standards development. (IMTEC-93-17)

**TAX  
ADMINISTRATION:  
IRS' Plans to Measure Tax  
Compliance Can Be  
Improved**

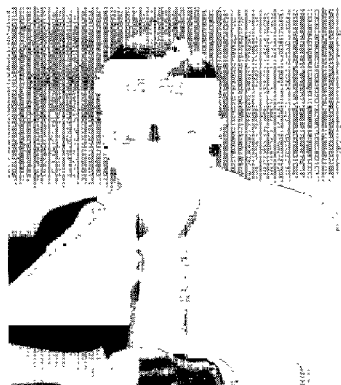
The Internal Revenue Service is redesigning its Taxpayer Compliance Measurement Program, which allows it to measure compliance reliably and select returns to audit objectively. But some IRS officials believe the program costs too much, is overly intrusive on compliant taxpayers, and yields untimely data. This report discusses the value of data generated by the program, evaluates the

merits of IRS' concerns, and identifies ways to improve the program while continuing to meet valid user needs. (GGD-93-52)

**LONG-TERM CARE  
CASE MANAGEMENT:  
State Experiences and  
Implications for Federal  
Policy**

The number of Americans age 65 and older is rising steadily and could exceed 52 million by 2020. Congress recently considered legislation to establish a network of case managers to integrate long-term care services and ensure that beneficiaries receive necessary health care and support. This report discusses (1) what constitutes case management; what roles case managers play; and what barriers they face in doing their jobs; and (2) whether standards for case managers would best be defined in terms of professional qualifications, the functions of case management, or performance measures based on the experience of state officials and outstanding case managers. (HRD-93-52)





**ORGAN TRANSPLANTS: Increased Effort Needed to Boost Supply and Ensure Equitable Distribution of Organs**

*Testimony by Associate Director of National and Public Health Issues Mark V. Nadel*

During a recent 5-year period, more than 10,000 people died waiting for organ transplants. Despite a federal law to increase the acquisition and standardize the distribution of transplant organs, patients cannot be assured that organ procurement organizations are making fair allocation decisions or effectively expanding the organ supply. (T-HRD-93-17)

**DOD'S MOBILITY REQUIREMENTS: Alternative Assumptions Could Affect Recommended Acquisition Plan**

The first volume of the Pentagon's Mobility Requirements Study, issued in January 1992, concluded that in 1999, the United States will lack sufficient mobility capability. The study recommended several new acquisitions. GAO reviewed the key assumptions and issued classified reports on sealift and airlift. This unclassified version of the two reports summarizes GAO's findings on the Department of Defense's key assumptions and discusses the implications if those assumptions were changed. (NSIAD-93-103)

**MILITARY BASES: Analysis of DOD's Recommendations and Selection Process for Closures and Realignment**

*Testimony by the Assistant Comptroller General for the National Security and International Affairs Division, Frank C. Conahan*

The Pentagon's base closure and realignment process is generally sound, but savings

estimates were overstated by nearly \$1 billion and questions arise about the rationale behind some recommendations. In some instances (1) criteria for calculating costs were not uniformly applied, (2) documentation in support of decisions was difficult to follow, and (3) savings were overstated. Oversight by the Office of the Secretary of Defense during the base closure process was weak. (T-NSIAD-93-11)

**U.S. MILITARY PRESENCE IN EUROPE: Issues Related to the Drawdown**

*Testimony by the Director of International Affairs Issues, Joseph E. Kelley*

In testimony based on past and ongoing work, GAO (1) describes the status of the military drawdown, including the problems created by changing requirements; (2) discusses U.S. and host countries' financial obligations related to the base closures in Europe; and (3) comments on burden sharing and efforts to dispose of excess equipment. (T-NSIAD-93-3)



■ **ARMY FORCE STRUCTURE:  
Attention Needed to Ensure  
an Ample Supply of Ready  
Support Forces**

*Testimony by the Director of  
National Security Analysis  
Issues, Richard A. Davis*

In response to rapid geopolitical changes around the globe, the Army plans to downsize to pre-Korean War levels. GAO discusses the Army's planned force reductions and the roles that will be assigned to Army Reserve and National Guard forces, and examines factors influencing decisions on future reserve roles, planned reserve force reductions, and the use of reserves in the smaller force of the future. (T-NSIAD-93-1)

■ **CATARACT SURGERY:  
Patient-Reported Data on  
Appropriateness and  
Outcomes**

*Testimony by the Assistant  
Comptroller General for  
Program Evaluation and  
Methodology,  
Eleanor Chelimsky*

Although for many patients, cataract surgery dramatically improves vision, the potential exists for complications that can actually worsen eyesight. Using the guidelines of the American Academy of Ophthalmology, GAO found that many patients may be undergoing cataract surgery when it is not really needed. (T-PEMD-93-3)

■ **SUGAR PROGRAM:  
Changing Domestic and  
International Conditions  
Require Program Changes**

The Department of Agriculture's sugar program protects domestic sugar producers from lower world

prices but has boosted domestic prices, costing food manufacturers and consumers an average of \$1.4 billion annually. Less than one-half of the costs of the program actually benefit sugar producers, and of those benefits, 42 percent went to 1 percent of all sugar farms in 1991. (RCED-93-84)

■ **REVITALIZING  
USDA:  
A Challenge for the 21st  
Century**

*Testimony by the Associate  
Director for Food and  
Agriculture Issues,  
Robert A. Robinson*

Since its inception in the 1930s, when small, family-owned farms typified American agriculture, the Department of Agriculture has seen its mission expand from traditional food production to include rural development and food assistance. Because food and agriculture today are global enterprises, fundamental change at USDA is essential. (T-RCED-93-32)

# MAY 1993

■ 78 Reports to Congress  
■ 34 Testimonies

## ■ TAX POLICY AND ADMINISTRATION: Value-Added Tax Administrative Costs Vary With Complexity and Number of Businesses

GAO estimates that administering a simple, broad-based value-added tax would cost the government between \$1.22 billion and \$1.83 billion annually, depending on the number of taxpayers subject to the tax. Were it to include exemptions and multiple rates, administrative costs could run as much as \$700 million higher. About \$800 million would be needed for taxpayer education, staff training, and computer systems during the transition. (GGD-93-78)



## ■ VA HEALTH CARE: Enforcement of Federal Ethics Requirements at VA Medical Centers

*Testimony by the Assistant  
Comptroller General for Human  
Resources Programs,  
Lawrence H. Thompson*

Senior managers at nearly one-third of the Department of Veterans Affairs' medical centers reported receiving part-time employment incomes, averaging thousands of dollars, from medical schools that receive millions of dollars through VA contracts. The Department nevertheless has allowed these managers to participate in awarding and administering these contracts. (T-HRD-93-22)

## ■ MULTIFAMILY HOUSING: Impediments to Disposition of Properties Owned by the Department of Housing and Urban Development

*Testimony by the Director of  
Housing and Community  
Development Issues,  
Judy England-Joseph*

HUD declared disposing of its 27,000 unit multifamily housing inventory its highest priority, but the shortage of federal funds for subsidies needed to preserve units for low-to-moderate income tenants is the most significant impediment to achieving this goal. With insufficient funds to subsidize and sell its inventory, HUD incurred about \$248 million in holding costs in fiscal year 1992. (T-RCED-93-37)

## ■ OCCUPATIONAL SKILL STANDARDS: Experience Shows Industry Involvement to Be Key

*Testimony by the Director of  
Education and Employment  
Issues, Linda G. Morra*

Organizations and industries sponsoring skill standards and certification systems believe that the time and resources devoted to developing and managing such systems represent wise investments in the future of

their industry. However, sponsors have not systematically evaluated the impact of the systems on workers and employers. (T-HRD-93-23)



■ **FEDERAL LAND:  
Little Progress Made in  
Improving Oversight of  
Concessioners**

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

Deterioration of federal lands is widespread, and the existing infrastructure—approaching \$200 billion in value—is increasingly run down; the cost of deferred maintenance in the national parks and forests alone is nearly \$3 billion. Despite GAO alerts over the past three years, federal agencies are still doing a poor job of managing concessioners. (T-RCED-93-42)

■ **PESTICIDES:  
Pesticide Reregistration  
May Not Be Completed  
Until 2006**

More than 20 years ago, Congress required the Environmental Protection Agency to reassess and reregister thousands of older pesticides—many of which have never been evaluated for their potential to cause cancer, reproductive disorders, birth defects, or environmental damage—using current scientific standards. Although EPA has made progress in completing the first several steps of the reregistration process, the agency will be unable to complete the pesticide reassessment as soon as expected. (RCED-93-94)



■ **DISASTER  
MANAGEMENT:  
Recent Disasters  
Demonstrate the Need to  
Improve the Nation's  
Response Strategy**

*Testimony by the Assistant  
Comptroller General for the  
Resources, Community, and  
Economic Development  
Division, J. Dexter Peach*

The federal strategy for dealing with disasters is deficient and explicit authority is lacking to adequately prepare for a disaster even when advance warning is available. In the aftermath of Hurricane Andrew, inadequate damage assessments, inaccurate estimates of needed services, and miscommunication and confusion at all levels of government slowed the delivery of services vital to disaster victims. (T-RCED-93-20)

# JUNE 1993

■ 84 Reports to Congress  
■ 21 Testimonies

## ■ FINANCIAL MANAGEMENT: Navy Records Contain Billions of Dollars in Unmatched Disbursements

Proper matching of disbursements with recorded obligations is an important way to ensure that agency funds are used properly, yet the Standard Accounting and Reporting System, which covers nearly \$57 billion—more than half of the Navy's annual budget—contained \$12.3 billion in unmatched disbursements as of February 1992. (AFMD-93-21)

## ■ FINANCIAL AUDIT: Examination of the Army's Financial Statements for Fiscal Years 1992 and 1991

GAO is unable to express an opinion on the reliability of financial statements prepared by the Army for fiscal years 1992 and 1991. The Army lacks effective controls to protect its \$293 billion in reported assets. Unreliable accounting systems place the Army at risk that improper expenditures of funds could be made and not be detected on a timely basis. (AIMD-93-1)



## ■ DIRECT STUDENT LOANS: The Department of Education's Implementation of Direct Lending

*Testimony by the Associate Director of Education and Employment Issues, Clarence C. Crawford*

The federal government could save almost \$1 billion annually by switching from guaranteed to direct loans for college students, but most financial aid administrators and business officers in GAO focus groups expressed little confidence in the Department of Education's ability to manage a direct loan program. (T-HRD-93-26)

## ■ OPERATION DESERT STORM: Apache Helicopter Fratricide Incident

A February 1991 incident involving "friendly fire" during the Persian Gulf War raised concerns over whether

equipment failure caused the incident, whether the U.S. Army tried to mislead Congress about the Apache's performance, and whether the Army improperly re-released information to the media. This report contains a discussion of the incident, related events, and contributing factors; an analysis of the Army's investigation; and responses to the specific concerns. (OSI-93-4)

## ■ FEDERAL RESEARCH: Superconducting Super Collider's Total Estimated Cost Will Exceed \$11 Billion

*Testimony by the Director of Energy and Science Issues, Victor S. Rezendes*

Management problems continue to hinder accurate and timely reporting of the Superconducting Super Collider's cost and status. Although the project's total cost cannot be reliably estimated, GAO believes that the total has more than doubled—from \$5.3 billion to more than \$11 billion—since the Super Collider was first proposed to Congress in 1987. (T-RCED-93-57)

■ **FINANCIAL AUDIT:  
Resolution Trust  
Corporation's 1992 and  
1991 Financial Statements**

In GAO's opinion, the financial statements of the Resolution Trust Corporation for 1992 present fairly RTC's financial position, the results of its operations and accumulated deficit, and its cash flows. GAO was not able to express an opinion on all of RTC's 1991 financial statements. GAO believes RTC's internal controls provide reasonable assurance that assets are safeguarded against loss and that transactions are properly executed. However, GAO noted weaknesses in RTC's financial reporting controls. (AIMD-93-6)

■ **TAX POLICY:  
Puerto Rico and the Section  
936 Tax Credit**

Under section 936, income earned by U.S. firms from operations in U.S. possessions is exempt from federal corporate income taxes. This report provides background information, discusses issues involved in estimating the effects of alternatives to the section 936 tax credit, and discusses possible multiplier effects of section 936 firms on the Puerto Rican economy. (GGD-93-109)

■ **SECURITIES  
MARKETS:  
SEC Actions Needed to  
Address Market  
Fragmentation Issues**

*Testimony by the Director of  
Financial Institutions and  
Markets Issues,  
James L. Bothwell*

GAO found that the Securities and Exchange Commission's encouragement of market competition, advances in computer technology, and investors' demands for reduced trading costs have fostered increased fragmentation—essentially the buying and selling of the same stock in different markets at the same time. The trend toward fragmentation has particularly affected the New York Stock Exchange, whose dominance is being increasingly challenged by regional exchanges, the dealer market, and foreign markets. (T-GGD-93-35)

■ **FOREIGN  
ASSISTANCE:  
AID Strategic Direction  
and Continued  
Management  
Improvements Needed**

Even as the Agency for International Development is undertaking new initiatives, concerns over its management of the foreign aid program have grown. This

study examines whether AID has (1) coped with the rapid expansion of its responsibilities, (2) established effective controls over its decentralized operations, and (3) adequately managed its human resources. (NSIAD-93-106)



■ **U.N. PEACEKEEPING:  
Observations on Mandates  
and Operational Capability**

*Testimony by the Assistant  
Comptroller General for the  
National Security and  
International Affairs Division,  
Frank C. Conahan*

The number, cost, and complexity of U.N. peacekeeping missions have increased dramatically in recent years. This testimony discusses (1) peacekeeping mandates, (2) limits on the U.N.'s capacity to undertake and support peacekeeping missions, and (3) the status of command and coordination in the field. (T-NSIAD-93-15)

**■ DRUG USE MEASUREMENT: Strengths, Limitations, and Recommendations for Improvement**

Three leading surveys of drug use—all federally funded—yielded questionable results because of various methodological weaknesses, such as the exclusion of groups at high risk for drug use and a reliance on self-reported data. Promising new methodologies, such as hair-sample analysis, deserve attention as ways of validating self-reports and determining drug use over an extended period. (PEMD-93-18)

**■ THE U.S. NUCLEAR TRIAD: GAO's Evaluation of the Strategic Modernization Program**

*Testimony by the Assistant Comptroller General for Program Evaluation and Methodology, Eleanor Chelmsky*

Evidence suggests that the sea leg is the strongest, most cost-effective component of the U.S. strategic triad. In the

air leg, strategic bombers also add an important stabilizing character to the nuclear force. However, DOD statements justifying the principal strategic weapon systems upgrades of the 1970s and 1980s (1) used insufficient data to support claims of high performance, (2) contained underestimated costs, and (3) reflected inflated estimates of the size and capability of the threat posed by the former Soviet Union. (T-PEMD-93-5)

**■ SYSTEMWIDE EDUCATION REFORM: Federal Leadership Could Facilitate District-Level Efforts**

*Testimony by the Director of Education and Employment Issues, Linda G. Morra*

In spite of the many education reforms of the 1980s, most Americans see the nation's public schools as average, especially in mathematics and science. A number of educators and policymakers believe the best chance to improve public education involves changing

the system as a whole. This testimony describes the efforts of some school districts at systemwide reform and provides information on the relationship between federal education efforts and school district experiences. (T-HRD-93-20)

**■ FEDERAL HEALTH CARE: Increased Information System Sharing Could Improve Service, Reduce Costs**

Sharing of health information among the Department of Veterans Affairs, the Defense Department, and the Indian Health Service offers many potential benefits, but such sharing is generally paper-based, electronic exchange of information is nonexistent, and intra-agency exchange is limited. Before additional sharing can be achieved, several barriers—with organizational barriers being the most challenging—must be overcome. (IMTEC-93-33BR)

## ■ FEDERAL BUDGET: Choosing Public Investment Programs

Although there is general agreement that more investment would enhance the nation's economic growth, disagreement persists over the federal role in raising national investment levels. This report (1) identifies key questions that should be addressed when choosing and implementing public investment programs and (2) discusses the application of these questions to public investment opportunities. (AIMD-93-25)

## ■ MILITARY SATELLITE COMMUNICATIONS: Opportunity to Save Billions of Dollars

The Pentagon's plans to save billions of dollars by taking advantage of modern technology in building its military satellites have failed to materialize. The Department of Defense still lacks a coordinated process for incorporating the latest technology into its military satellite communications. (NSIAD-93-216)

## ■ WELFARE TO WORK: States Move Unevenly to Serve Teen Parents in JOBS

The Job Opportunities and Basic Skills Training Program (JOBS) can be used to help teen parents on welfare complete their high school education. In the 16 states GAO reviewed, about 24 percent of the teen parents receiving welfare had been enrolled in JOBS. The share of teen parents enrolled in each of these states, however, differed substantially—from 7 to 53 percent. (HRD-93-74)

## ■ 1993 GERMAN HEALTH REFORMS: New Cost Control Initiatives

Germany's past experience and current reforms using global budgets, physician fee schedules, and constraints on resource growth could provide valuable insights for the United States as this nation grapples with health care reform. One of the most important lessons from Germany is that health reform is a continuous process. As the United States moves toward comprehensive health care reform, the flexibility to respond to a constantly changing health market will be crucial to success. (HRD-93-103)

## ■ RETIREE HEALTH PLANS: Health Benefits Not Secure Under Employer-Based System

Under an employer-based health care system, the health benefits of retirees are not secure, due to the fact that employers can change both their employee and retiree health benefit plans at will. In response to rapidly rising health benefit costs, employers have generally tried to shift costs to participants. (HRD-93-125)

## ■ WOMEN IN THE MILITARY: Deployment in the Persian Gulf War

About 7 percent of the more than half a million U.S. troops sent to the Persian Gulf during Operations Desert Shield and Desert Storm were women. Their deployment renewed debate over the ban on women in combat. Overall, unit commanders generally had positive things to say about women's performance in the Persian Gulf War. Cohesion in mixed-gender units was generally considered to be effective during the deployment. (NSIAD-93-93)



**■ FOOD SAFETY AND QUALITY: Innovative Strategies May Be Needed to Regulate New Food Technologies**

Now may be the time to revisit the regulatory framework for food and food ingredients because the existing legislative guidance from the Food and Drug Administration predates today's new technologies. FDA's application of this guidance has also been controversial. (RCED-93-142)

**■ MILITARY SALES TO ISRAEL AND EGYPT: DOD Needs Stronger Controls Over U.S.-Financed Procurements**

The United States has given billions of dollars in security assistance to both Israel and Egypt. In 1991, Israel convicted one of its Air Force officers of skimming an estimated \$40 million in U.S. funds by submitting false purchase orders on U.S.-financed contracts. This report (1) discusses why Israel and Egypt buy U.S.-funded goods directly from contractors rather than through the U.S. government and (2) identifies weaknesses in the Foreign Military Financing Program. (NSIAD-93-184)

**■ STATE DEPARTMENT: Widespread Management Weaknesses at Overseas Embassies**

*Testimony by the Assistant Comptroller General for the National Security and International Affairs Division, Frank C. Conahan*

GAO surveyed 104 U.S. embassies on problems affecting staffing, training, financial management, contracting and procurement, property management, and regional support. According to respondents, (1) embassies have staffing gaps in administrative jobs; (2) the number of administrative staff at some embassies has not kept pace with increasing workloads; (3) staff training needs go unmet; (4) financial management systems do not meet embassy needs; (5) some embassies have not taken steps to improve overseas contracting and procurements; (6) not all inspect the condition of their facilities annually; and (7) most do not prepare required inspection reports. (T-NSIAD-93-17)

**■ AIRLINE COMPETITION: Higher Fares and Less Competition Continue at Concentrated Airports**

This report examines the effects of market dominance on fares and service at major airports. GAO (1) compares fares at major airports served primarily by one or two airlines with fares at airports with more competition, (2) assesses factors other than market dominance that could explain any differences in fares, (3) points out changes in airport concentration since its last report, and (4) assesses changes in the levels of service at airports dominated by one or two airlines. (RCED-93-171)

**■ NUCLEAR WASTE: Yucca Mountain Project Management and Funding Issues**

*Testimony by the Associate Director for Energy and Science Issues, Jim Wells*

At its present pace, DOE's scientific study to determine the suitability of Yucca Mountain as the nation's underground nuclear waste repository will take at least 5 to 13 years longer than planned and could cost up to \$600 million more than the \$6.3 billion the agency has projected. (T-RCED-93-58)

## ■ FINANCIAL MANAGEMENT: First Financial Audits of IRS and Customs Revealed Serious Problems

*Testimony by the Comptroller  
General of the United States,  
Charles A. Bowsher*

Financial audits of the Internal Revenue Service and the Customs Service revealed a wide range of problems with the quality of financial management information and internal controls over billions of dollars. Agency systems and controls did not effectively (1) safeguard assets, (2) provide a reasonable basis for determining compliance with laws and regulations, (3) protect confidential data, or (4) provide reliable financial management information to the Congress or agency management. (T-AIMD-93-3)

## ■ DEFENSE INVENTORY: Applying Commercial Purchasing Practices Should Help Reduce Supply Costs

The Pentagon's material inventory—the world's largest—includes spare parts and operating supplies for airplanes, ships, tanks, and other complex weapon systems. This report examines cost considerations

underlying the Pentagon's inventory decisions. GAO discusses the Pentagon's difficulty in buying quantities of secondary items with the lowest total cost and also identifies commercial inventory practices that have cut supply costs at several private sector firms. (NSIAD-93-112)

## ■ U.S.-ISRAEL ARROW/ ACES PROGRAM: Cost, Technical, Proliferation, and Management Concerns

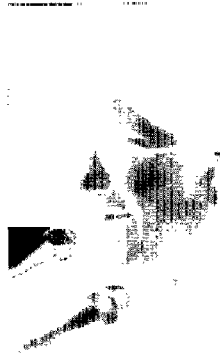
The joint U.S.-Israel Arrow/Aces anti-ballistic missile development program has schedule and technical risks, and Israel's cost estimate for a complete Arrow missile defense system may be understated. Even though the Department of Defense has no plans to buy the Arrow, an analysis of the missile's cost, schedule, and performance is needed to determine whether the Arrow is cost-effective and the best choice for meeting Israel's needs. (NSIAD-93-254)

## ■ ELECTRONIC WARFARE: Inadequate Testing Led to Faulty SLQ-32s on Ships

The Navy has spent more than \$300 million for thousands of design changes to correct deficiencies and improve the primary electronic warfare system that protects ships against incoming missiles, yet the system's capabilities remain in doubt. (NSIAD-93-272)

## ■ VOCATIONAL REHABILITATION: Evidence for Federal Program's Effectiveness Is Mixed

The state-federal vocational rehabilitation program run by the Department of Education is intended to help disabled persons find jobs, grow more independent, and become integrated into the community. GAO found that only a small fraction of the millions of disabled Americans who are potentially eligible for state-federal rehabilitation services actually receive them and that rehabilitants' gains in employment and earnings fade substantially after about two years. (PEMD-93-19)



■ **MEDICAID DRUG FRAUD:**  
**Federal Leadership Needed to Reduce Program Vulnerabilities**

*Testimony by Associate Director for Health Financing Issues  
Leslie G. Aronovitz*

Investigations of Medicaid prescription drug fraud disclosed an organized network of collusion among physicians, patients, pharmacists, and other middlemen, many of whom transferred money overseas through the Bank of Credit and Commerce International. (T-HRD-93-28)

■ **TAX ADMINISTRATION:**  
**Computer Matching Could Identify Overstated Business Deductions**

The Internal Revenue Service could generate more tax revenues if it made more use of the 1 billion information returns—such as Form W-2s to report wages—that businesses file each year. Although IRS uses the computer to match Form W-2s with tax returns to determine if individual taxpayers report all of their income, IRS fails to do the same thing in reverse for businesses to see if they deducted the correct amount of wages. GAO found that such “reverse” matching is feasible for wage deductions and could be feasible for other business expenses. (GGD-93-133)

## **TAX ADMINISTRATION: Improving Compliance with Real Estate Tax Deductions**

*Testimony by the Associate  
Director of Tax Policy and  
Administration Issues,  
Natwar M. Gandhi*

The Internal Revenue Service needs to reduce overstated real estate tax deductions that lead to millions of dollars in tax losses for federal, state, and local governments. Individuals improperly deduct local fees for service and do not account for state rebates of real estate taxes—producing an estimated \$1.5 billion in overstated deductions in 1988. (T-GGD-93-46)

## **FINANCIAL AUDIT: Pension Benefit Guaranty Corporation's 1992 and 1991 Financial Statements**

Because of PBGC's improved internal controls, GAO was able, for the first

time, to express an opinion on PBGC's statement of financial condition. In GAO's view, PBGC's financial statements for fiscal year 1992 present fairly its financial position with one exception affecting PBGC's Multiemployer Fund. GAO did not express an opinion on PBGC's 1991 financial statements. Although internal controls reasonably ensured that assets were safeguarded and transactions were properly executed, not all control objectives were met. (AIMD-93-21)

## **MILITARY DOWNSIZING: Balancing Accessions and Losses is Key to Shaping the Future Force**

Although the military services have significantly reduced entry levels from those of previous years, they are also recruiting large numbers of personnel to better ensure a balanced force across the various pay grades and skill areas. GAO discusses (1) progress made toward meeting reduction targets, (2) the impact of downsizing on recruiting, (3) voluntary and nonvoluntary reduction actions, (4) future force profiles, and (5) future reduction decisions. (NSIAD-93-241)

## **NUCLEAR NONPROLIFERATION AND SAFETY: Challenges Facing the International Atomic Energy Agency**

The uncovering of Iraq's nuclear weapons program, North Korea's refusal to allow IAEA to conduct nuclear inspections, and the Chernobyl nuclear power plant accident have focused attention on nuclear proliferation and the safety of nuclear power plants. This report examines (1) the effectiveness of IAEA's safeguards program and the adequacy of its funding, (2) the management of U.S. technical assistance to IAEA's safeguards program, and (3) the effectiveness of IAEA's program for advising member states about the safety of nuclear power plants. (NSIAD/RCED-93-284)

## **1994 DOD BUDGET: Potential Reductions to the Operation and Maintenance Programs**

In reviewing the military services' operation and maintenance budget requests for fiscal year 1994, GAO identified potential reductions and rescissions totaling about \$6.7 billion. The potential reductions cover a variety of

areas, from spare parts to underseas surveillance and counter-drug efforts. (NSIAD-93-295BR)

**FEDERAL RESEARCH: Aging Federal Laboratories Need Repairs and Upgrades**

*Testimony by the Associate Director for Energy and Science Issues, Jim Wells*

Most federal research laboratories are experiencing problems associated with aging facilities—leaking roofs and gutters, drafty window frames, power outages, and poor ventilating systems that do not meet industry standards for air circulation. Most of the laboratories GAO visited are more than 30 years old. Although facility managers generally believe that funding for laboratory maintenance is adequate, the eight agencies GAO reviewed reported backlogs of more than \$3.8 billion in needed laboratory repairs. Funding to renovate existing laboratories or build new ones is often minimal. (T-RCED-93-71)



**NORTH AMERICAN FREE TRADE AGREEMENT: A Focus on the Substantive Issues**

*Testimony by the Director of International Trade, Finance, and Competitiveness Issues, Allan I. Mendelowitz*

GAO summarizes a two-volume study examining major provisions of the proposed North American Free Trade Agreement and discusses their potential impact on the economy, the environment, labor, and immigration. (T-GGD-93-44)

**AMTRAK SAFETY: Amtrak Should Implement Minimum Safety Standards for Passenger Cars**

Amtrak does not consistently implement its inspection and preventive maintenance programs and lacks clear criteria for determining when a passenger car should be removed from service for safety reasons. (RCED-93-196)

**AIRCRAFT CERTIFICATION: New FAA Approach Needed to Meet Challenges of Advanced Technology**

The Federal Aviation Administration, which is responsible for certifying that new aircraft designs and systems meet safety standards, faces the daunting task of keeping abreast of increasingly complex technologies. GAO concludes that FAA has not ensured that its staff is effectively involved in the certification process and FAA has also failed to provide its staff with the assistance and training needed to ensure competence in the new technologies. (RCED-93-155)



■ **TOXIC SUBSTANCES:  
Information on Lead  
Hazards in Child Care  
Facilities and Schools Is  
Limited**

*Testimony by the Director of  
Environmental Protection  
Issues, Richard L. Hembra*

The combined efforts of federal, state, and local governments to counter lead hazards in child care facilities and schools are limited in scope and do not provide a comprehensive approach for defining and alleviating the problem. Little information is available on either the full extent of the danger that lead poses to the nation's school-children or on efforts to address the hazard.

(T-RCED-93-48)

---

# *Overview of Operations and Financial Management*

This overview includes:

- a description of GAO and its mission,
- a commentary on GAO's financial resources and results of operations,
- a status report on some recent investments in productivity, summaries of internal control and financial management initiatives,
- a review of external quality control efforts,
- a discussion of GAO's performance information, and
- a description of the scope of the audit of GAO's 1993 principal financial statements.

Immediately following the overview are GAO's principal statements for fiscal years 1993 and 1992, along with the independent auditors' report.

## **GAO and Its Mission**

The General Accounting Office assists the Congress in its legislative oversight of the executive branch. Its mission is to achieve honest, efficient management and full accountability throughout government. GAO serves the public interest by providing Members of the Congress and other policymakers with accurate information, unbiased analysis, and objective recommendations on how to best use public resources.

A commitment to quality is the single most important principle governing GAO work. GAO defines high quality work as (1) objective and independently derived; (2) accurate, timely, and meaningful; and (3) presented in a way most useful to the responsible officials. To accomplish this, GAO calls upon the varied skills of approximately 4,900 career employees who work throughout the world. GAO values its people and the diversity and talents they bring to the service of the Congress and the American public.

As has been the case in recent years, about 80 percent of GAO's work during fiscal year 1993 was done at the specific request of the Congress. GAO is required to do work requested by committee chairmen; as a matter of policy, GAO assigns equal status to requests from ranking minority Members. To the extent possible, GAO also responds to requests from

---

individual Members. Other assignments are initiated pursuant to standing commitments to congressional committees, and some are required by law. Finally, GAO undertakes assignments independently in accordance with its basic legislative responsibilities.

GAO's work is managed through four program and two technical divisions. Staff concentrate on specific subject areas; this enables them to become highly knowledgeable about the agencies and programs they audit. By maintaining expertise in key areas of interest, GAO staff can respond quickly and comprehensively to requests from the Congress.

GAO's Office of the General Counsel (OGC) assists the Comptroller General and GAO staff with legal issues that arise during audits and evaluations. The office also (1) prepares Comptroller General decisions and opinions for Congress and the executive branch on the legality of federal agency activities and the legal implications of legislative proposals, and (2) provides interpretations of laws governing public expenditures to government agencies. In addition, GAO's OGC renders thousands of decisions each year to resolve protests from bidders for government contracts.

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

The accompanying principal statements summarize GAO's financial position, disclose the results of operations and the changes in net position during fiscal years 1993 and 1992, present all significant cash flows during the 2 fiscal years, and provide a comparison of budget and actual expenses.

The cost of operating GAO during these fiscal years was about \$436 million and \$438 million, respectively. More than 99 percent of operations were financed through appropriations from the Congress. The remainder came from reimbursements from other government agencies. The percentage of operating expenses financed by appropriations has been about the same for the last 5 years.

During fiscal year 1993, expenses for salaries and related costs totaled \$328 million, or 75 percent of GAO's operating expenses. The remaining 25 percent went for travel, rent, utilities, automated data processing, and other items. Total expenses supported 4,900 staff-years; most staff were employed in carrying out GAO's audit and evaluation activities. This staffing level has remained relatively constant during the past decade, however, GAO's staff ceiling was reduced in recent years and will likely be reduced further over the next 2 years due to funding constraints.

### **Investments to Improve Productivity**

In fiscal year 1993, GAO continued its emphasis on continual improvement by investing in staff effectiveness and organizational efficiency. Examples of these investments include:



- 
- a strong commitment to continuing professional education programs to maintain and enhance staff proficiency;
  - initiatives to streamline our organization, including (1) consolidating financial management and information systems management issue areas, (2) reorganizing issues related to defense and international affairs, (3) developing greater issue area expertise and job management skills in field staff, and (4) beginning a study to close, combine, or consolidate a number of field offices and audit sites;
  - expanded application of new technologies and electronic communications to basic work processes to enhance capabilities, improve overall productivity and efficiency, and accommodate workloads;
  - continued focus on quality management to identify ways to improve overall performance and direct service to GAO's customers; and
  - asbestos removal and renovation of the 41-year-old GAO building.

### **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 management plan to ensure that internal controls throughout the organization are evaluated systematically, and
- an internal review program to show that GAO's quality controls are providing reasonable assurance that its audit and evaluation work conforms with applicable professional standards and related GAO requirements.

### ***Improvements in Tracking Progress on Mandated Work***

To monitor its progress toward completing specific assignments, GAO uses an automated Mission and Assignment Tracking System to maintain an inventory of all audits and evaluations mandated or requested by the Congress. In 1992, GAO reviewed its system for tracking progress on mandated work and determined that improvements were needed.

This year, GAO took steps to ensure that it has a reliable inventory of all mandates for GAO work and that it has a good system for identifying new ones as they occur. In addition,

---

procedures and controls have been established to ensure that each mandate is tracked from the time it is identified until completion of all work required by the public law mandates. These changes are sufficient to give GAO reasonable assurance that work mandated by the Congress will be carried out.

### ***Internal Controls at the National Finance Center***

The Department of Agriculture's National Finance Center (NFC) performs GAO's payroll processing. In 1992, we reported on certain internal control problems at NFC which may have potentially allowed for errors or irregularities to occur. However, GAO's accounting system has several additional controls which make it highly unlikely that GAO would fail to detect a misuse or misappropriation of its funds that are material to its principal statements. GAO has also implemented several new controls as recommended by its independent auditor to further compensate for the problems at NFC. GAO continues to closely monitor the problem and will do so until corrective actions have been implemented at NFC.

### ***Improvements in Administering Trust Funds***

GAO is accountable to the Congress and to the public for the proper financial administration of two trust funds: (1) Davis-Bacon Act receipts and payments and (2) assets of Americans who die abroad. These assets are not the property of GAO or the federal government and are held for distribution to appropriate claimants.

This year GAO reviewed its system of internal controls and accounting for these trust funds and determined that improvements were needed to administer and dispose of the assets properly and more timely. GAO has already taken steps to strengthen internal controls and produce financial statements of trust fund assets and related liabilities in accordance with the Chief Financial Officer's Act.

### ***Improvements to Follow-up on Implementation of GAO's Recommendations***

GAO has established policies and procedures to monitor the progress of agencies in implementing its recommendations. In reviewing these activities, GAO determined that improvements were needed in how these requirements were being performed. GAO is taking steps to (1) ensure that follow-up requirements are being adhered to and (2) clarify policies and procedures where needed. Also, the issue of recommendation follow-up will be addressed within one of the priorities in GAO's quality management initiative.

### **Financial Management Initiatives**

During 1993, GAO conducted a number of internal financial management initiatives. Several of these are summarized below.

- GAO began an initiative to require that all GAO employees (with a few exceptions) obtain travel advances through an automated teller machine via government-furnished charge cards.

---

This program will improve GAO's cash management by greatly reducing the number of imprest fund transactions and the number and dollar amount of outstanding travel advances.

- GAO began an initiative to implement a third-party payment system which will eliminate all imprest fund disbursements except those involving very small dollar amounts.
- GAO completed the testing and installation of the latest release of a commercial software package used as the basis for the agency's Financial Management System. It provides enhanced security and control features, and streamlines data entry procedures.
- GAO began an initiative to decentralize additional financial management functions to field offices during the year, including the management of additional budget accounts to improve accountability over funds usage, the ability to sub-allot budgeted funds along issue area lines, and the payment of commercial vendor invoices.
- GAO successfully completed the implementation of a new travel service contract agencywide. This contract provides uniform, reliable, and quality travel services for GAO staff worldwide, thus leading to more efficient travel operations.
- GAO initiated a pilot program using commercially-available software to determine if efficiency and cost reduction can be achieved in travel transaction processing. The pilot will be conducted throughout fiscal year 1994 and will test more efficient uses of technology, different processing methods and resource utilization, and will potentially result in a paperless travel processing environment.
- GAO continued to use staff rotations and training programs to increase the financial management expertise of internal accounting and field staff.

### **External Advice and Monitoring**

External advice and monitoring continue to be an important component of GAO's quality control efforts. In late 1992, the Comptroller General established an Audit Advisory Committee to provide advice on GAO's financial operations. The Committee is composed of three distinguished individuals from outside GAO:

- Sheldon Cohen (Chairman) is a CPA and an attorney and senior partner with Morgan, Lewis & Bockius and former IRS Commissioner and Chief Counsel.
- Alan B. Levenson is an attorney and senior partner with Fulbright & Jaworski and a former senior official at the Securities and Exchange Commission.
- Katherine D. Ortega is a CPA, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and former Member of the President's Advisory Committee on Small and Minority Business.

---

The Audit Advisory Committee reviews and reports to the Comptroller General on the effectiveness of GAO's (1) financial reporting and auditing processes, (2) internal controls over financial operations, and (3) processes to ensure compliance with laws and regulations that could significantly impact GAO's operations.

GAO also has a Quality Control Review Board, consisting of several 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:

- Elliot L. Richardson (Chairman) is an attorney with Milbank, Tweed, Hadley & McCloy; former Secretary of Commerce, Defense, and Health Education and Welfare; former Attorney General; former Under Secretary of State, and former Ambassador-at-Large.
- John C. Burton is a CPA and the Arthur Young Professor of accounting at Columbia University, former Chief Accountant of the Securities and Exchange Commission, and former Dean of the Graduate School of Business at Columbia University.
- David F. Linowes is a CPA and the Boeschstein Professor Emeritus and professor of political economy and public policy at the University of Illinois; he is also the former Chairman of the President's Commission on Privatization; Chairman, Presidential Commission on the Nation's Energy Resources; Chairman, Federal Privacy Protection Commission; and National Partner, Laventhol & Horwath.
- John Rhinelander is an attorney with Shaw, Pittman, Potts, and Trowbridge; he is a former Under Secretary of the U.S. Department of Housing and Urban Development; former General Counsel of the U.S. Department of Health, Education, and Welfare; and has held other legal positions, including adviser to the SALT I delegation, the State Department, and the Secretary of the Navy.

GAO has consistently supported the idea of having a formal external quality review process and has made several proposals on how this might be done. Such a review would be consistent with Government Auditing Standards, which require organizations conducting audits to have an external quality control review at least once every 3 years by an independent organization. In fiscal year 1993, the Senate Governmental Affairs Committee contracted with the National Academy of Public Administration to conduct a broad study of GAO. GAO is cooperating fully with this effort and expects that it will benefit both GAO and the Congress.

Finally, periodic congressional oversight is also critical to the effective operation of any agency, and it is particularly important to GAO because of its significant role in serving the Congress. In late October 1993, a formal hearing on the oversight of GAO was conducted by the House Government Operations Committee.

---

## Performance Information

Several important performance measures are discussed earlier in this report, such as the measurable financial benefits from GAO's work, the percent of GAO's recommendations implemented, and the number of products produced. Additional GAO performance measures are addressed in a separate publication titled *1993 Annual Report of Key Performance Indicators*. GAO's ongoing quality management initiative is expected to lead to further refinements and improvements in GAO's measurement system.

Other publications providing summaries of GAO's work and the status of its recommendations include the *Abstracts of Reports and Testimony: Fiscal Year 1993*; *Index of Reports and Testimony: Fiscal Year 1993*; *Supplement to the Comptroller General's 1993 Annual Report*; *Summary Tables of GAO Personnel Assigned to Congressional Committees, Fiscal Year 1993*; and the *Annual Report to the Chairmen, House and Senate Committees on Appropriations, on the Status of Open Recommendations*.

## Audit of GAO's 1993 Principal Statements

The audit of GAO's 1993 principal statements was performed by the independent auditors KPMG Peat Marwick. The independent auditors' report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the principal statements.

While GAO is not subject to the Chief Financial Officers (CFOs) Act of 1990 or the Federal Managers' Financial Integrity Act of 1982, GAO is fully committed to the principles and objectives of both acts and has elected to comply with substantially all of their requirements. GAO's 1993 financial statements have been prepared in accordance with the requirements of the CFOs Act of 1990, OMB Bulletin No. 93-02 (Form and Content of Agency Financial Statements), and the applicable sections of OMB Bulletin No. 94-01 (OMB Bulletin No. 93-02 revised). In our 1993 financial statements, we have changed to the direct method of presentation for the Statement of Cash Flows because we believe it provides the user with information of greater relevance to the government environment.



Assistant Comptroller General for Operations



Assistant Comptroller General for Planning and Reporting



Comptroller General of the United States

# Principal Statements

## U.S. General Accounting Office Statements of Financial Position as of September 30, 1993 and 1992

<i>Dollars in Thousands</i>	<i>1993</i>	<i>1992</i>
<b>Assets</b>		
<b>Financial resources</b>		
Funds with U.S. Treasury	\$ 76,517	\$82,095
Travel and other advances	998	1,743
Accounts receivable	191	106
<b>Total financial resources</b>	<b>77,706</b>	<b>83,944</b>
<b>Nonfinancial resources</b>		
Accounts receivable	2,296	3,659
Property and equipment, net	45,058	43,003
Supplies inventory	490	631
<b>Total nonfinancial resources</b>	<b>47,844</b>	<b>47,293</b>
<b>Total Assets</b>	<b>\$125,550</b>	<b>\$131,237</b>
<b>Liabilities</b>		
<b>Funded liabilities</b>		
Salaries and benefits	\$ 11,432	\$22,625
Accounts payable	18,402	15,905
Employee travel	1,274	1,585
Other	2,812	4,192
<b>Total funded liabilities</b>	<b>33,920</b>	<b>44,307</b>
<b>Unfunded liabilities</b>		
Accrued annual leave	29,691	27,850
Workers compensation	7,770	7,898
Comptrollers' General retirement plan	1,899	1,699
Capital leases	679	439
<b>Total unfunded liabilities</b>	<b>40,039</b>	<b>37,886</b>
<b>Total Liabilities</b>	<b>\$ 73,959</b>	<b>\$82,193</b>
<b>Net Position</b>	<b>51,591</b>	<b>49,044</b>
<b>Total Liabilities and Net Position</b>	<b>\$125,550</b>	<b>\$131,237</b>

The accompanying notes are an integral part of these statements.

**U.S. General Accounting Office  
Statements of Operations and Changes in Net Position  
for Fiscal Years Ended September 30, 1993 and 1992**

<i>Dollars in Thousands</i>	<i>1993</i>	<i>1992</i>
<b>Operating Expenses by Program Area</b>		
National Defense, Security and International Relations, and Other Related Issues	\$96,484	\$96,622
Energy, Agriculture, Environment, Housing, Transportation, and Natural Resources Issues	84,234	83,515
Financial Audits, Systems, Information Management and Technology Issues	77,531	80,137
Justice, Tax Policy, Financial Institutions, and General Management Issues	74,637	76,354
Education and Employment, Health Care and Income Security Issues	59,414	58,279
Legal Services	22,697	22,628
Program Evaluation Methodology and Standards	10,324	11,118
Special Investigations and Investigative Support	6,382	5,682
Senior Management and Staff	4,514	4,108
<b>Total Operating Expenses</b>	<b>436,217</b>	<b>438,443</b>
<b>Financing Sources</b>		
Appropriations expended	429,940	428,064
Rents and reimbursable services, net of \$5,838 and \$4,353 remittable to U.S. Treasury in 1993 and 1992, respectively	4,364	7,624
<b>Total Financing Sources</b>	<b>434,304</b>	<b>435,688</b>
<b>Expenses to be funded by future appropriations</b>	<b>\$(1,913)</b>	<b>\$(2,755)</b>
<b>Increase in capitalized and unexpended appropriations</b>	<b>4,460</b>	<b>14,567</b>
<b>Net Position, beginning of fiscal year, as previously stated</b>	<b>49,044</b>	<b>44,443</b>
Adjustment (Note 8)	-	(7,211)
<b>Net Position, beginning of fiscal year, as restated</b>	<b>49,044</b>	<b>37,232</b>
<b>Net Position, end of fiscal year</b>	<b>\$51,591</b>	<b>\$49,044</b>

The accompanying notes are an integral part of these statements.

**U.S. General Accounting Office  
Statements of Cash Flows  
for Fiscal Years Ended September 30, 1993 and 1992**

<i>Dollars in Thousands</i>	<i>1993</i>	<i>1992</i>
<b>Cash Flows From Financing Activities</b>		
Appropriations (net of \$481 and \$0 lapsed to Treasury in fiscal years 1993 and 1992, respectively)	\$434,686	\$442,647
<b>Cash Flows from Operating Activities-Rents and Reimbursables, Net</b>	4,281	7,696
<b>Total Cash Received</b>	<b>438,967</b>	<b>450,343</b>
<b>Cash Used for Operating Activities</b>		
Salaries and benefits	337,316	318,426
External training	2,565	3,263
Travel	15,850	22,042
Rent, communications, and utilities	31,755	31,431
Computer and other ADP services	16,994	17,764
Other contract services	21,205	21,631
Supplies and materials	4,838	5,250
Printing and document copying	2,746	3,869
Other	583	605
<b>Total Cash Used for Operating Activities</b>	<b>433,852</b>	<b>424,281</b>
<b>Cash Used for Investing Activities to Acquire Property and Equipment</b>	<b>10,693</b>	<b>10,171</b>
<b>Total Cash Disbursed</b>	<b>444,545</b>	<b>434,452</b>
<b>Net Cash Received (Disbursed)</b>	<b>(5,578)</b>	<b>15,891</b>
<b>Funds with U.S. Treasury, beginning of fiscal year</b>	<b>82,095</b>	<b>66,204</b>
<b>Funds with U.S. Treasury, end of fiscal year</b>	<b>\$76,517</b>	<b>\$82,095</b>

The accompanying notes are an integral part of these statements.



**U.S. General Accounting Office  
Statements of Budget and Actual Expenses  
for Fiscal Years Ended September 30, 1993 and 1992**

<b>Dollars in Thousands</b>	1993	1992
<b>Current year appropriations</b>	<b>\$435,167</b>	<b>\$442,647</b>
Plus: Unobligated appropriations available from prior fiscal year	6,114	3,765
Plus: Rents and reimbursable services, net	4,364	7,624
<b>Total budget resources</b>	<b>\$445,645</b>	<b>\$454,036</b>
Less: Budget obligations	438,495	447,922
Less: Lapsed budget authority	628	-
<b>Total unobligated appropriations</b>	<b>\$6,522</b>	<b>\$6,114</b>
<b>Budget Reconciliation</b>		
<b>Total operating expenses</b>	<b>\$436,217</b>	<b>\$438,443</b>
Less: Expenses to be funded by future appropriations which are recognized in the principal statements but not in budgetary accrued expenditures	1,913	2,755
Plus: Net effect of capitalizing assets in the principal statements which are recognized as accrued expenditures for budgetary purposes	1,813	3,531
Plus: Net increase in unliquidated obligations	2,378	8,703
<b>Total budget obligations</b>	<b>\$438,495</b>	<b>\$447,922</b>
Less: Rents and reimbursable services, net	4,364	7,624
Less: Net increase in unliquidated obligations	2,378	8,703
<b>Total Budgetary Accrued Expenditures</b>	<b>\$431,753</b>	<b>\$431,595</b>

The accompanying notes are an integral part of these statements.

---

# Notes to Principal Statements

---

## Note 1. Summary of Significant Accounting Policies

### *Reporting Entity*

The accompanying principal 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 primarily to the execution of the GAO's congressionally approved budget. GAO's budget consists of an appropriation covering salaries and expenses and a building expenditure fund. The principal 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.

### *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 codifies 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 principal statements. Under the authority of the CFOs Act of 1990, GAO participated with the Office of Management and Budget (OMB) and the Treasury Department (Treasury) 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 certain federal 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 principal statements based upon the accounting principles included in title 2, and consistent with OMB Bulletin No. 93-02 (Form and Content of Agency Financial Statements) and applicable sections of OMB Bulletin No. 94-01 (OMB Bulletin 93-02 revised).

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

### *Basis of Presentation*

GAO's 1993 principal statements have been prepared in accordance with the requirements of the CFOs Act of 1990, OMB Bulletin No. 93-02, and applicable sections of OMB Bulletin No. 94-01 (OMB Bulletin 93-02 revised). Form and content changes in the principal statements include the following:

Statements of Financial Position - Accounts receivable are classified as financial and nonfinancial.

Statements of Cash Flows - The Statements of Cash Flows are prepared using the direct method.

---

#### *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. Funds with the U.S. Treasury represent appropriated funds available to pay current liabilities and finance authorized purchase commitments.

#### *Accounts Receivable*

GAO's accounts receivable are due principally from federal government corporations and other federal agencies for audit and other reimbursable services. Accounts receivable which are not intended to be used in meeting GAO's operational needs, and which GAO is required by law to transfer to the Treasury, are classified as nonfinancial resources.

#### *Property and Equipment*

GAO's headquarters building in Washington, D.C. was capitalized at its depreciated value at the time of transfer from the General Services Administration on October 28, 1988. It is depreciated on a straight-line basis over 25 years.

Other property and equipment costing more than \$5,000 are capitalized at cost and depreciated. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. Depreciation is calculated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years.

#### *Liabilities*

Liabilities represent the amount of monies that is likely to be paid by GAO as a result of a transaction that has already occurred. However, no liability can be paid by GAO absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities. It is not certain that appropriations will be enacted to fund these liabilities. GAO's accounts payable are due principally to non-federal government entities.

#### *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.

#### *Contingencies*

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 principal 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.

#### *Reclassifications*

Certain amounts for 1992 have been reclassified to conform with the 1993 presentation of those amounts.

**Note 2. Property and Equipment, Net**

The composition of property and equipment as of September 30, 1993 is as follows:

*Dollars in Thousands*

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$ 3,133	\$12,531
Land	1,191	-	1,191
Building improvements	22,729	13,290	9,439
Computer and other equipment, and ADP software	31,498	12,370	19,128
Leasehold improvements	5,736	4,192	1,544
Assets under capital lease	2,678	1,453	1,225
<b>Total Property and Equipment</b>	<b>\$79,496</b>	<b>\$34,438</b>	<b>\$45,058</b>

The composition of property and equipment as of September 30, 1992 is as follows:

*Dollars in Thousands*

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building	\$15,664	\$2,506	\$13,158
Land	1,191	-	1,191
Building improvements	19,196	8,981	10,215
Computer and other equipment, and ADP software	25,823	10,217	15,606
Leasehold improvements	5,460	3,624	1,836
Assets under capital lease	2,218	1,221	997
<b>Total Property and Equipment</b>	<b>\$69,552</b>	<b>\$26,549</b>	<b>\$43,003</b>

**Note 3. Net Position**

GAO's operations do not require permanent capital, and are not expected to generate an operating surplus or deficit. The composition of GAO's net position is as follows:

*Dollars in Thousands*

	1993	1992
Capitalized assets, net of capital lease liability	\$44,869	\$43,195
Unliquidated obligations	39,560	37,182
Unobligated appropriations	6,522	6,114
Future appropriations due	(39,360)	(37,447)
<b>Net Position</b>	<b>\$51,591</b>	<b>\$49,044</b>

The increase in capitalized assets from fiscal year 1992 to 1993 of \$1,674,000 resulted primarily from purchases of computers, other equipment, and improvements less depreciation. Unliquidated obligations represent purchase commitments. With the enactment of the National Defense Authorization Act (Public Law 101-510, dated November 5, 1990), Treasury permitted agencies to retain both their unliquidated obligations and unobligated appropriations for 5 years after the year of availability. GAO's unobligated appropriations as of September 30, 1993 and 1992 were \$6,522,000 and \$6,114,000, respectively. In accordance with the Act, at September 30, 1993 GAO lapsed \$628,000 of budget authority to the Treasury related to canceled appropriations. GAO does not believe that it has any obligations related to canceled appropriations. Future appropriations due represent aggregate amounts of congressionally authorized long-term liabilities (annual leave, workers compensation, and retirement benefits for Comptrollers General) that are expected to be funded by future years' appropriations.

**Note 4. Operating Expenses**

Expenses incurred in the Statements of Operations and Changes in Net Position are classified and reported by major type of program. Expenses incurred by GAO's field offices have been allocated to program areas based on direct staff days used to support each program. Mission support expenses have been allocated to program areas based on staff year usage. Approximately \$237,400,000 and \$242,200,000 of expenses were allocated to programs in fiscal years 1993 and 1992, respectively. Operating expenses by object classification are shown in the following schedule.

<i>Dollars in Thousands</i>	<i>1993</i>	<i>1992</i>
<b>Object Classification</b>		
Salaries and benefits	\$328,394	\$325,716
External training	2,580	3,225
Travel	15,003	21,124
Rent, communications and utilities	33,701	32,339
Computer and other ADP services	18,107	17,246
Other contract services	20,497	20,198
Supplies and materials	4,878	5,552
Printing and document copying	2,923	3,501
Depreciation	9,216	8,705
Other	918	837
<b>Total Operating Expenses</b>	<b>\$436,217</b>	<b>\$438,443</b>

**Note 5. Budget and Actual Expenses**

The Statements of Budget and Actual Expenses provide a comparison of total actual expenses of all programs with budget authority for such programs. Since GAO's program designation in the Statement of Operations and Changes in Net Position is more detailed than its budget account (GAO has only one budget account), it was not meaningful to allocate budget resources and obligations on the same basis as its programs. These amounts are shown in total. Lapsed budget authority includes fund balances returned to Treasury (\$481,000) and accounts receivable transferable to Treasury (\$147,000) at September 30, 1993. The statements also provide a reconciliation of the actual expenses incurred on the accrual basis to budget obliga-

---

tions and budgetary accrued expenditures. This reconciliation is presented to facilitate an understanding of the relationship and differences between information presented in the principal statements and budgetary information.

**Note 6. Leases**

*Operating Leases*

GAO leases 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. Generally, leases are cancelable by either party without penalty, upon 120 days notice. Lease costs for office space and equipment for fiscal years 1993 and 1992 amounted to approximately \$23,900,000 and \$21,400,000, respectively. GAO's estimated future minimum lease payments are as follows:

*Dollars in Thousands*

<b>Fiscal Year end September 30</b>	<b>Total</b>
1994	\$24,070
1995	19,380
1996	16,471
1997	9,275
1998	5,923
Thereafter	11,564
<b>Total estimated future lease payments</b>	<b>\$86,683</b>

*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. When GAO enters into these leases, the present value of the future lease payments is capitalized and recorded as a liability. Lease payments of approximately \$679,000 and \$439,000 remained to be paid on these leases as of September 30, 1993 and 1992, respectively.

**Note 7. Retirement and Other 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 for employee retirement programs during fiscal years 1993 and 1992 were approximately \$37,490,000 and \$36,080,000, respectively. In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and may continue to participate after retirement. GAO makes matching contributions to the FEHBP for active employees but is not responsible for any contributions on behalf of retirees. GAO's costs associated with its employee health benefit programs during fiscal years 1993 and 1992 amounted to approximately \$11,514,000 and \$10,798,000, respectively.

---

Comptrollers General and their surviving beneficiaries who qualify and so elect are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was \$1,899,000 as of September 30, 1993 and \$1,699,000 as of September 30, 1992 based on a discount rate of 7.5% and the 1983 Group Annuity Mortality Table.

**Note 8. Workers  
Compensation**

The Federal Employee's Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by GAO. In prior fiscal years, GAO recorded these compensation benefits on a cash basis. GAO has recorded a liability for claims incurred and paid to claimants by DOL as of September 30, 1993 and 1992, but not yet reimbursed to DOL by GAO. GAO has also recorded an estimated liability for claims incurred as of September 30, 1993 and 1992 and expected to be paid in future periods. The estimated liability for such claims incurred as of September 30, 1993 and 1992 and expected to be paid in future periods was calculated by projecting future costs, using historical payment data.

The accompanying principal statements as of and for the year ended September 30, 1992 have been restated to record a liability for workers compensation claims previously accounted for by GAO using the cash basis of accounting, and to record an estimated liability for future costs of benefits incurred on or before September 30, 1992. The restatement increased expenses to be funded by future appropriations for 1992 by approximately \$687,000. The fiscal year 1992 beginning Net Position has been adjusted for the effects of the restatement on prior years.

**Note 9. Trust and Other  
Governmentwide Functions  
(Unaudited)**

GAO is responsible for administering two trust functions for the federal government: (1) Davis-Bacon Act receipts and payments and (2) 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 \$7,719,000 on September 30, 1993. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1993, receipts and disbursements in these funds amounted to \$2,080,000 and \$845,000 respectively. Since these trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal 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 1993 and 1992, GAO authorized approximately \$568,000,000 and \$899,000,000, 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 principal statements.

---

**Note 10. Subsequent Events**

Public Law 103-69 authorized payment of a lump sum cash incentive to each eligible GAO employee who voluntarily retires or resigns from the agency on or after October 1, 1993 and prior to January 1, 1994. The amount of the payment will be the lesser of \$25,000 or the amount of severance pay the employee would be entitled to if eligible for severance pay. The maximum number of GAO employees who may elect voluntary early retirement is 350. There is no restriction on the number of employees applying for optional retirement or employees who resign. Employees who take advantage of the separation incentive are ineligible for re-employment with GAO for two years following separation. There are also other restrictions on re-employment in the federal service as determined by the Office of Personnel Management.

The law requires a reduction in the total number of employee positions authorized for GAO for each vacancy created by the separation incentive. Funds appropriated by the Legislative Branch Appropriations Act of 1994 (Public Law 103-69, effective August 11, 1993) for salaries and expenses of any position that is eliminated under the incentive program cannot be used for any other purpose.

As of December 20, 1993, the total number of GAO employees who had submitted an application for taking the separation incentive, including those who have already separated after October 1, 1993 was 379. The maximum amount of incentives that would be paid to these employees if none withdraw their application is \$9,475,000.

On November 9, 1993 the Comptroller General issued a directive in response to a Senate Report accompanying the Legislative Branch Appropriations Act of 1994 to close or consolidate certain GAO regional facilities. As stated in the directive, all staff in units which will be closing will be given the opportunity to relocate to another GAO location. GAO expects this directive will increase the number of individuals electing to take advantage of the separation incentive noted above. Further, the costs associated with the relocation of individuals from offices that are scheduled to be closed could not be estimated as of the December 23, 1993.



# Independent Auditors' Report

**KPMG** Peat Marwick

Certified Public Accountants

2001 M. Street, N.W.  
Washington, DC 20036

## INDEPENDENT AUDITORS' REPORT

Comptroller General of the United States:

We have audited the General Accounting Office's Principal Statements, referred to below, as of and for the years ended September 30, 1993 and 1992, and performed a related study and evaluation of its system of internal control in effect at September 30, 1993.

In our opinion:

- The 1993 and 1992 Principal Statements are presented fairly, in all material respects; and
- The system of internal control in effect at September 30, 1993, was sufficient to meet the control objectives identified below insofar as those objectives pertain to the prevention or detection of errors and irregularities in amounts that would be material to the Principal Statements.

We found:

- No material conflicts with management's report on internal controls voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No material noncompliance with the selected provisions of applicable laws and regulations tested.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

## OPINION ON PRINCIPAL STATEMENTS

In our opinion, the 1993 and 1992 Principal Statements including the accompanying notes, on pages 44 through 54, present fairly, in all material respects, the General Accounting Office's:

- financial position as of September 30, 1993 and 1992;
- results of operations and changes in net position;
- cash flows; and
- budget and actual expenses for the years then ended

on the basis of accounting described in Note 1 to the Principal Statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.



Member Firm of  
KPMG Peat Marwick

As described in Note 1, the General Accounting Office prepares its Principal Statements based upon the accounting principles included in title 2 of its "Policies and Procedures Manual for Guidance of Federal Agencies" and consistent with the provisions of Office of Management and Budget (OMB) Bulletin 93-02 and applicable sections of OMB Bulletin 94-01 (OMB Bulletin 93-02 as revised), "Form and Content of Agency Financial Statements," which require the presentation of a Statement of Cash Flows, a Statement of Budget and Actual Expenses, and certain other disclosures.

As described more fully in Note 8 to the Principal Statements, GAO changed its method of accounting for workers compensation benefits in fiscal year 1993, and restated prior period Principal Statements to reflect that change.

#### **OPINION ON INTERNAL CONTROLS**

We have made a study and evaluation of the General Accounting Office's system of internal control in effect at September 30, 1993, designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property and other assets are safeguarded against loss from unauthorized use or disposition; and
- revenue and expenditures applicable to the General Accounting Office's operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.

In our opinion, the system of internal control in effect at September 30, 1993, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors and irregularities in amounts that would be material to the Principal Statements. In addition, nothing came to our attention to indicate that the General Accounting Office's report on internal controls dated December 23, 1993, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), conflicts materially with the results of our study and evaluation of the system of internal control.

***Internal Controls at the National Finance Center.*** Examinations of the National Finance Center (NFC), a federal information processing center that performs substantial payroll processing functions for the General Accounting Office, identified certain weaknesses in NFC's internal controls:

- An independent accountant's report dated September 30, 1991 found that "Program changes (at NFC) are not adequately documented and controlled."
- An audit report by NFC's Inspector General dated September 30, 1992 found that "Improvements are needed in the security controls over IDMS." The report further stated that "security vulnerabilities existed (in IDMS) that would allow unauthorized access and modification to payroll/personnel data." IDMS is a database management system software package which NFC uses to manage and maintain federal agency employee payroll and personnel information.

We discussed the above weaknesses with representatives from the NFC's Inspector General's Office during our fiscal year 1993 audit and study and evaluation of GAO.

These representatives stated that the NFC has taken actions to partially correct the weaknesses noted above. However, the NFC's Inspector General has not yet performed procedures to verify the effectiveness of NFC's corrective actions. Additionally, neither the Inspector General nor any other independent accountants performed a comprehensive examination of NFC's internal controls during fiscal year 1993. These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audits of the Principal Statements and in our study and evaluation of the system of internal control.

#### **COMPLIANCE WITH LAWS AND REGULATIONS**

The objective of our audit of the Principal Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

However, our tests of compliance with selected provisions of applicable laws and regulations disclosed no material instances of noncompliance. Also, with respect to items not tested, nothing came to our attention that caused us to believe that material noncompliance with such provisions occurred. These conclusions with respect to our tests of compliance with selected provisions of applicable laws and regulations are intended solely for the information of Congress and the General Accounting Office's management.

#### **RESPONSIBILITIES AND METHODOLOGY**

Management has the responsibility for:

- preparing the Principal Statements in conformity with the comprehensive basis of accounting described in Note 1 to the Principal Statements;
- establishing and maintaining a system of internal control; and
- complying with applicable laws and regulations.

Further, management has elected to comply with substantially all of the provisions of the FMFIA.

Our responsibility is to express opinions on the Principal Statements and system of internal control based on our audits and study and evaluation, respectively. Accordingly, we planned and performed the audits and study and evaluation, to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and presented fairly in accordance with the basis of accounting described in Note 1 to the Principal Statements, and (2) the system of internal control is sufficient to meet the control objectives stated previously insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the Principal Statements. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Principal Statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Statements;

- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Statements;
- evaluated and tested relevant internal controls over the following significant cycles, classes of transactions, and account balances:
  - Payroll;
  - Travel Disbursements;
  - Operating Disbursements;
  - Budget Monitoring and Appropriations;
  - Fund Balances with Treasury; and
  - Accounts Payable.
- tested compliance with selected provisions of the following laws and regulations that may materially affect the Principal Statements:
  - Anti-deficiency Act;
  - Fair Labor Standards Act;
  - Civil Service Retirement Act;
  - GAO Personnel Act of 1980;
  - Federal Employees' Compensation Act;
  - Federal Employees' Health Benefits Act of 1959; and
  - Federal Employees' Group Life Insurance Act of 1980.
- at management's request, compared the General Accounting Office's most recent FMFIA report on internal controls dated December 23, 1993 with our study and evaluation of the system of internal control.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objectives identified in our opinion on the system of internal control. Because of inherent limitations in any system of internal control, losses, noncompliance or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluations to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Our audits were conducted in accordance with generally accepted auditing standards; Government Auditing Standards, as issued by the Comptroller General of the United States; and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements." Our study and evaluation of the system of internal control in effect at September 30, 1993 was conducted in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audits and our study and evaluation provide a reasonable basis for our opinions.

***Consistency of Other Information.*** The "Overview of Operations and Financial Management" and other supplemental information in "A Message from the Comptroller General" and in "Highlights of GAO Reports and Testimony" contain a wide range of data, some of which is not directly related to the Principal Statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the Principal Statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the Principal Statements, his report, or the other information require revision.

*KPM& Peat Marwick*

December 23, 1993  
Washington, D.C.

