

GAO

UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE  
SERVING THE CONGRESS AND THE NATION



**Performance &  
Accountability**  
Highlights

Fiscal Year  
**2005**

Accountability



Integrity



Reliability

# S E R V I N G   T H E   C O N G R E S S

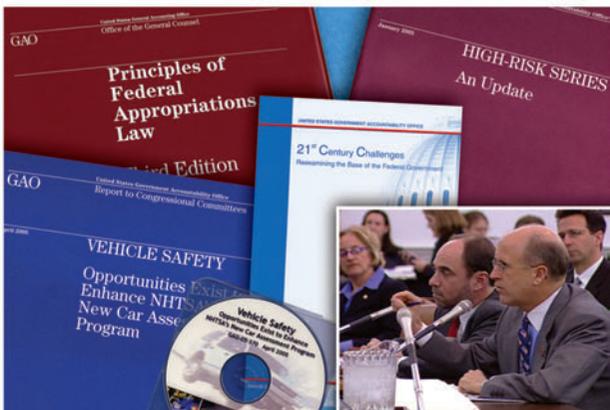
## GAO'S MISSION

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



## SCOPE OF WORK

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



## CORE VALUES

### ACCOUNTABILITY

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

### INTEGRITY

We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of reputation, and GAO's people and approach to its work are designed to ensure both.

### RELIABILITY

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



Source: See Image Sources.

January 2006

By nearly every measure, GAO has once again produced excellent results in serving the Congress and the American people, and this summary performance and accountability report highlights our results for fiscal year 2005. Our business involves helping to improve performance and ensure accountability in connection with a broad range of federal programs, policies, and activities. Simply put, we try to help improve the way the federal government works for the benefit of all of our nation's citizens both now and in the future. To determine our success, we set performance targets and follow financial management and quality control practices that help ensure that we are making the best use of the federal funds invested in us. I am very pleased to report that in addition to strong financial and nonfinancial external performance results, GAO received clean opinions from external, independent auditors on our financial statements and on our performance audit and financial audit quality assurance systems. We also identified a broad range of issues that could seriously affect the stability and prosperity of the nation in the years to come. The following paragraphs highlight our performance in each of these areas.

With respect to our performance measures, I am especially pleased to report that we met or exceeded targets for 10 of our 14 performance measures, while setting or matching all-time records for 3 measures. We documented \$39.6 billion in financial benefits—a return of \$83 for every dollar we spent—and over 1,400 nonfinancial benefits—a record for us. The work we did to produce these benefits helped to shape important legislation, such as the Intelligence Reform and Terrorism Prevention Act of 2004 (Pub. L. No. 108-458), and increase the

efficiency of various federal programs, thus improving the lives of millions of Americans. In addition, the rate at which our recommendations were implemented by the Congress or federal agencies rose to 85 percent in fiscal year 2005, and the percentage of our fiscal year 2005 products containing recommendations increased to 63 percent—exceeding the targets we set for both of these measures this year. Our performance in these two areas set an all-time record for recommendations implemented and matched the record we set in fiscal year 2004 for the percentage of new products with recommendations. We delivered 179 testimonies, slightly missing our target of 185. We also missed by just 1 percent our target of providing 98 percent of our products to the Congress when promised. In addition, in the first year that we are reporting our progress on our 8 new measures related to our people, we met or exceeded the targets for 6 of them related to retention and employee satisfaction. We came close to, but did not achieve, the targeted performance related to our new hire rate—the ratio of the number of people hired to the number of people we planned to hire—and the percentage of people that accepted our employment offers.

As in past years, during fiscal year 2005, our work covered a number of major topics of concern to the nation and, in some cases, the world. For example, we reported on the nation's long-term fiscal challenges, the financial condition of the airline industry, spending and reconstruction activities related to Iraq and Afghanistan, and strengthening the visa process as an antiterrorism tool. We also examined the Department of Defense's transformation challenges, base realignment and closure issues, increasing the strategic focus of federal acquisitions, protecting against identity theft, oversight of electricity markets, zero down payment mortgages, and immigration enforcement. We testified many times before the Congress, contributing to the public debate on a variety of topics that included issues relating to Social Security, national security, homeland security, health care, tax policy and administration, and government transformation efforts. A list of topics on which we testified appears on [page 28](#) of this summary report.

The American people benefited this year as federal agencies took a wide range of actions based on our analyses and recommendations, while our efforts also heightened the visibility of issues needing attention. We feel fortunate and honored that in a significant majority of cases, our clients and federal agencies listen to what GAO has to say and act on our recommendations. Furthermore, virtually all of our reports are published and available on our Web site (<http://www.gao.gov>), keeping us accountable to the American people.

Once again we have received a clean audit opinion on our financial statements, and on page 62 of this summary report we have included the independent auditor's condensed report stating that we presented our financial statements fairly and maintained effective internal control processes. The auditors also reported no instances of noncompliance with applicable laws and regulations. Additionally, I am most pleased to report the results of the first-ever review of our quality assurance system used to conduct our performance audits, which involves work performed in virtually all parts of GAO. This review—which was performed by an international team of auditors from seven countries led by the Office of the Auditor General of Canada—assessed whether our quality assurance policies and procedures were suitably designed and operating effectively; the review resulted in a clean opinion. Their April 2005 audit report also cited a number of exemplary practices at GAO, such as our strategic planning process, proactive working relationship with the Congress, quality assurance framework, audit risk assessment process, and high-risk list. The international team also offered us some suggestions for improvement, including streamlining certain requirements for low-risk assignments, a suggestion that we are already working to implement. Similarly, as we have in the past, we received a clean opinion resulting from a separate audit of our quality assurance system for our financial audits. The auditors concluded that our system of quality control for the accounting and auditing practice was designed to meet applicable quality control standards and was complied with for the

period reviewed, providing us reasonable assurance of conforming to applicable professional standards.

In fiscal year 2005, we issued two products that will assist the Congress as it addresses a broad range of future challenges. Our report entitled *21st Century Challenges: Reexamining the Base of the Federal Government* provides a series of illustrative questions related to 12 areas of federal activity as well as our perspective on various strategies and approaches that should be considered as a possible means to address the many challenges and opportunities that we face in the 21st century. Drawing on our institutional knowledge and extensive program evaluation and performance assessment work for the Congress, we presented over 200 specific 21st century questions illustrating the types of hard choices our nation needs to face as it reexamines what the federal government should do, how it should do it, and how it should be financed. (See p. 33 for more information about our 21st century challenges report.) We also issued our *High-Risk Series: An Update*, which identifies federal areas and programs at risk of fraud, waste, abuse, and mismanagement and those in need of broad-based transformations. The issues affecting many of these areas and programs may take years to address, and the report will serve as a useful guide for the Congress's future programmatic deliberations and oversight activities. The current administration has looked to our high-risk program in shaping government-wide initiatives such as the President's Management Agenda, which has at its base many of the areas we had previously identified as high risk. The Office of Management and Budget, in consultation with us, is currently working to ensure that agencies develop detailed action plans to address high-risk areas, with the ultimate objective, over time, of seeing these items removed from our high-risk list.

This year we also continued to take steps internally to be a model federal agency and a world-class professional services organization. These steps helped us to address our three major management challenges—human capital, physical security, and information security. Through the GAO Human Capital

Reform Act of 2004, the Congress granted GAO several additional human capital flexibilities that will allow us, among other things, to move to an even more performance-oriented and market-based compensation system. Our most valuable asset continues to be our people, and the flexibilities granted in this act will help us to continue to modernize our people-related policies and strategies, which, in turn, will help to ensure that we are well equipped to serve the Congress and the American people in the years to come. As a result, we are continuing to take a range of actions designed to modernize our human capital policies and practices. In fiscal year 2005, we adopted a broad pay band approach and a more performance-oriented pay system for our administrative staff. We also made considerable progress in moving to a more market-based and skills-, knowledge-, and performance-oriented classification and pay systems for all of our employees.

In today's world, we should partner for progress with other key players. We believe strongly in doing so in order to maximize our value and mitigate risk within current and expected resource levels. Fiscal year 2005 included several major milestones in our outreach efforts. Most notably, we led the adoption of the first-ever strategic plans for the International Organizational of Supreme Audit Institutions and the National Intergovernmental Audit Forum.

In short, fiscal year 2005 was a very successful year for us. Our complete performance and accountability report, which is available on our Web site at <http://www.gao.gov>, describes our many contributions toward improving the government. I am confident that the performance data and financial information in that report and this summary are complete and reliable. I believe that GAO remained true to its core values of accountability, integrity, and reliability throughout the year and that

those who read this report will agree that the taxpayers received an excellent return on their investment in GAO.

A handwritten signature in black ink, appearing to read "D. M. Walker", followed by a horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

## About GAO



Source: GAO.

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

Our mission is to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. We accomplish our mission by providing reliable information and informed analysis to the Congress, to federal agencies, and to the public; and we recommend improvements, when appropriate, on a wide variety of issues. Three core values—accountability, integrity, and reliability—form the basis for all of our work, regardless of its origin. These are described on the inside front cover of this summary.

The majority of our work is undertaken in response to congressional mandates or requests. However, as authorized by our enabling legislation, we also independently allocate a lim-

### GAO's History

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

ited portion of our resources for work performed under the Comptroller General's authority. To perform both types of efforts, we maintain a workforce of highly trained professionals with degrees in many academic disciplines, including accounting, law, engineering, public and business administration, economics, and the social and physical sciences. About three-quarters of our approximately 3,200 employees are based at our headquarters in Washington, D.C.; the rest are deployed in 11 field offices across the country. Almost all of our staff are organized into 13 teams that support our three external strategic goals. Our other staff support our fourth strategic goal (an internal goal) and work in various staff

offices, including General Counsel and Congressional Relations.

To ensure that we are well positioned to meet the Congress's current and future needs, we update our 6-year strategic plan every 3 years, consulting extensively during the update with our clients on Capitol Hill and with other experts (see our complete strategic plan on the Web at [www.gao.gov/sp/d04534sp.pdf](http://www.gao.gov/sp/d04534sp.pdf)). Our strategic plan is based on a hierarchy of four elements—strategic goals, strategic objectives, performance goals, and key efforts. We use the strategic plan as a blueprint to lay out the areas in which we expect to conduct research, audits, analyses, and evaluations to meet our clients' needs. This then allows us to allocate the resources we receive from the Congress accordingly. Our strategic plan framework is shown on [page 9](#).

Our work is primarily aligned under the first three strategic goals, which span issues that are both domestic and international, affect the lives of all Americans, and influence the extent to which the federal government serves the nation's current and future interests. The fourth goal is our only internal one and is aimed at maximizing our productivity through such efforts as investing steadily in information technology to support our work; ensuring the safety and security of our

people, information, and assets; pursuing human capital transformation; and leveraging our knowledge and experience. On [page 10](#), we list by strategic goal some examples of the work we performed during fiscal year 2005.

Each year, we hold ourselves accountable to the Congress and to the American people for our performance. As a legislative branch agency, we differ in some ways from executive branch agencies. We are, for instance, exempt from many laws applicable to the executive branch. However, we hold ourselves to the spirit of many of these laws, including 31 U.S.C. 3512 (commonly referred to as the Federal Managers' Financial Integrity Act), the Government Performance and Results Act of 1993, and the Federal Financial Management Improvement Act of 1996.

The pages that follow offer highlights of our performance and accountability report for fiscal year 2005. We also present condensed financial statements and the independent auditor's opinion on them. If you would like additional information, please see the full-length version of our performance and accountability report and other performance-related documents at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

# SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

## MISSION

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

## THEMES

Long-Term Fiscal Imbalance

National Security

Global Interdependence

Changing Economy

Demographics

Science and Technology

Quality of Life

Governance

## GOALS & OBJECTIVES

Provide Timely, Quality Service to the Congress and the Federal Government to . . .

. . . Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People *related to . . .*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

. . . Respond to Changing Security Threats and the Challenges of Global Interdependence *involving . . .*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

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

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

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

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

## CORE VALUES

Accountability

Integrity

Reliability

Fiscal years 2004-2009

Source: GAO.

# Examples of How GAO Assisted the Nation

GAO strategic goal	Description	In fiscal year 2005, GAO provided information that helped to...
1	Provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.	<ul style="list-style-type: none"> <li>■ Improve the transition from active duty to civilian status for veterans with serious war-related injuries</li> <li>■ Address long-term health care financing pressures on state and local government budgets</li> <li>■ Identify challenges with transferring the Medicare appeals process from the Social Security Administration and the Department of Health and Human Services</li> <li>■ Improve patient safety at Department of Veterans Affairs hospitals</li> <li>■ Improve the security of Social Security numbers</li> <li>■ Address the challenges of pension reform</li> <li>■ Strengthen the security screening process for passengers and checked baggage at the nation's airports</li> <li>■ Improve the oversight of Federal Housing Administration single-family and multifamily lenders</li> <li>■ Improve the oversight of electricity markets by the Federal Energy Regulatory Commission</li> <li>■ Identify challenges associated with the Department of Energy's nuclear facility designs</li> <li>■ Monitor the growth in the digital television market</li> <li>■ Analyze issues contributing to the declining financial condition of the airline industry</li> </ul>
2	Provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence.	<ul style="list-style-type: none"> <li>■ Improve the management of funds for the Global War on Terrorism</li> <li>■ Increase the security of cargo containers to prevent terrorist activity</li> <li>■ Alert the Congress to issues affecting the Department of Defense's major weapon systems</li> <li>■ Analyze funding options for a new federal foreign assistance program—the Millennium Challenge Account</li> <li>■ Promote government efforts to address threats to the security of the nation's information systems</li> <li>■ Strengthen the visa process as an antiterrorism tool</li> <li>■ Improve management of the U.S. Coast Guard's Deepwater program</li> <li>■ Shape the debate on improving military pay and benefits</li> <li>■ Strengthen the U.S. strategic export control system</li> <li>■ Identify improvements needed to secure the telecommunications and information systems used by U.S. financial markets</li> </ul>
3	Help transform the federal government's role and how it does business to meet 21st century challenges.	<ul style="list-style-type: none"> <li>■ Increase the public's understanding of the federal government's long-term fiscal challenges</li> <li>■ Implement governmentwide civil service reforms</li> <li>■ Oversee federal tax policy</li> <li>■ Increase debts collected from criminals</li> <li>■ Decrease improper payments made by the U.S. Department of Agriculture's Food Stamp Program and other federal agencies</li> <li>■ Manage multibillion-dollar information technology modernizations and investments at the Department of Homeland Security and Office of Personnel Management</li> <li>■ Improve agencies' strategic purchasing practices</li> <li>■ Examine changes in key areas of federal activity that could affect the federal government's fiscal future</li> <li>■ Enhance the knowledge base on comprehensive national indicators</li> </ul>
4	Maximize the value of GAO by being a model federal agency and a world-class professional services organization.	<ul style="list-style-type: none"> <li>■ Foster among other federal agencies GAO's innovative human capital practices, such as broad pay bands; performance-based compensation; and workforce planning and staffing strategies, policies, and processes</li> <li>■ Share GAO's model business and management processes and other transformation-related information with counterpart organizations in the United States and abroad</li> </ul>

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## GAO's Performance

In fiscal year 2005, the Congress focused its attention on a broad array of challenging issues affecting the safety, health, and well-being of Americans here and abroad, and we were able to provide the objective, fact-based information these decision makers needed to stimulate debate, change laws, and improve federal programs for the betterment of the nation. For example, as the war in Iraq continued, we examined how the Department of Defense (DOD) supplied vehicles, body armor, and other materiel to the troops in the field; contributed to the debate on military compensation; and highlighted the need to improve health, vocational rehabilitation, and employment services for seriously injured soldiers transitioning from the battlefield to civilian life. We also kept pace with the Congress's information needs about ways to better protect America from terrorism by issuing products and delivering testimonies that addressed issues such as security gaps in the nation's passport operations that threaten public safety and federal efforts needed to improve the security of checked baggage at airports and cargo containers coming through U.S. ports. We explored the financial crisis that weakened the airline industry and the impact of this situation on the traveling public and airline employees' pensions.

In addition, we helped to focus the attention of the Congress and the public on issues affecting the fiscal security and economic stability of the nation in the long term. In the second quarter of fiscal year 2005, we issued two products that will assist the Congress as it addresses future challenges. Our report entitled *21st Century Challenges: Reexamining the Base of the Federal Government* provides a series of illustrative questions related to 12 areas of federal activity as well as our perspective on various strategies and approaches that should be considered as possible means to address the issues and questions raised in the report. Drawing on our institutional knowledge and extensive program evaluation and performance assessment work for the Congress, we presented over 200 specific 21st century questions illustrating the types of hard choices our nation needs to face as it reexamines what the federal government does and how it does it. We also issued our *High-Risk Series: An Update*, which identifies federal areas and programs at risk of fraud, waste, abuse, and mismanagement and those in need of broad-based transformations. The issues affecting many areas and programs discussed in these two products may take years to address, and these products will serve as a useful guide for the Congress's future programmatic deliberations and oversight activities. (See pp. 33 and 35 for more information about our 21st century challenges and high-risk

reports, respectively.) We performed all this work and more in accordance with our strategic plan, guided by our core values, and consistent with our professional standards.

As we assisted the Congress in fiscal year 2005, we monitored our performance using 14 annual performance measures that capture the results of our work; the assistance we provided to our client—the Congress; and our ability to attract, retain, develop, and lead a highly professional workforce (see table 1). These measures indicate that we had an impressive year—we met or exceeded our performance targets for 10 of our 14 measures. Two of our results measures—financial benefits and other benefits—illustrate the outcomes of our work and our value to the nation because they track federal dollars saved or better used and programmatic improvements implemented as a result of our work. Two additional results measures track recommendations implemented and new products with recommendations that help us to achieve financial and other benefits. Our client measures—testimonies and timeliness—indicate how well we, as an information provider, serve the Congress, and our people measures reflect how well we manage our staff to achieve the results that we do.

In fiscal year 2005, we accomplished real results for the nation, surpassing our financial benefits target for the year and exceeding our annual target and all-time record for other (nonfinancial) benefits. Our financial benefits of \$39.6 billion represent an \$83 return on every dollar invested in us, and the more than 1,400 other benefits resulting from our work helped to improve the efficiency and effectiveness of government programs that serve the public. In addition, we exceeded our targets for the percentages of past recommendations implemented and new products with recommendations by 5 percentage points and 8 percentage points, respectively.

We did not achieve the targets we set for testimonies and timeliness. Several testimonies we had scheduled were postponed or canceled so that the Congress could turn its attention to the Supreme Court nominations and, during the last months of the fiscal year, to Hurricane Katrina and its aftermath. However, we believe we served the Congress very well during fiscal year 2005. Based on feedback through an electronic survey completed by a sample of our congressional clients who requested our testimonies and significant products, 96 percent of the responses concerning their overall satisfaction with our products were favorable.

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

Performance measure	2001 actual	2002 actual	2003 actual	2004 actual	2005		Met/ not met	2006 target
					Target	Actual		
<b>Results</b>								
Financial benefits (dollars in billions)	\$26.4	\$37.7	\$35.4	\$44.0	\$37.5	\$39.6	Met	\$39.0
Other benefits	799	906	1,043	1,197	1,000	1,409	Met	1,050
Past recommendations implemented	79%	79%	82%	83%	80%	85%	Met	80%
New products with recommendations	44%	53%	55%	63%	55%	63%	Met	60%
<b>Client</b>								
Testimonies	151	216	189	217	185	179	Not met	210
Timeliness	95%	96%	97%	97%	98%	97%	Not met	98%
<b>People</b>								
New hire rate	N/A	96%	98%	98%	97%	94%	Not met	97%
Acceptance rate	N/A	81%	72%	72%	75%	71%	Not met	75%
Retention rate								
With retirements	91%	91%	92%	90%	90%	90%	Met	90%
Without retirements	95%	97%	96%	95%	94%	94%	Met	94%
Staff development	N/A	71%	67%	70%	72%	72%	Met	74%
Staff utilization	N/A	67%	71%	72%	74%	75%	Met	75%
Leadership	N/A	75%	78%	79%	80%	80%	Met	80%
Organizational climate	N/A	67%	71%	74%	75%	76%	Met	75%

Source: GAO.

Notes: N/A indicates the information is not available or the target is not applicable. Our fiscal year 2006 target for the percentage of products with recommendations differs from the target we reported for this measure in our fiscal year 2006 performance plan posted on our Web page in June 2005. On the basis of our performance in fiscal year 2005, we increased this target by 5 percentage points.

Concerning our eight people measures, for which we began to hold managers accountable in fiscal year 2005, we are happy to report that we met or exceeded our annual targets for all but two of them—new hire rate and acceptance rate. Our performance in this area indicates that we did a very good job developing, productively using, and managing our staff, but need to improve our recruiting and hiring processes, which we have taken steps to do.

### *Results Measures*

Focusing on outcomes and the efficiency of the processes needed to achieve them is fundamental to accomplishing our mission. The following measures indicate that we have fulfilled our mission and delivered results that benefit the nation.

### *Financial and Other Benefits*

We describe many of the benefits produced by our work as either financial or other (nonfinancial) benefits. Both types of benefits result from our efforts to provide information to the Congress that helped to (1) change laws and regulations, (2) improve services to the public, and (3) promote sound agency and governmentwide management. In many cases, the benefits we claimed in fiscal year 2005 are based on work we did in past years because it often takes the Congress and agencies time to implement our recommendations or to act on our findings. To claim either

type of benefit, our staff must document the connection between the benefits reported and the work that we performed.

### **Financial Benefits**

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

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

For example, financial benefits could result if the Congress were to reduce the annual cost of operating a federal program or lessen the cost of a multi-year program or entitlement. Financial benefits could also result from increases in federal revenues—due to changes in laws, user fees, or asset sales—that our work helped to produce. In fiscal year 2005, our work generated \$39.6 billion in financial benefits. Of this amount, \$19 billion (or approximately 48 percent) resulted from changes in laws or regulations.

Financial benefits included in our performance measures are net benefits—that is, estimates of financial benefits

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

To document financial benefits, our staff complete reports documenting accomplishments that are linked to specific products or actions. All accomplishment reports for financial benefits are documented and reviewed by (1) another GAO staff member not involved in the work and (2) a senior executive in charge of the work. Also, a separate unit reviews all financial benefits and approves benefits of \$100 million or more, which amounted to 94 percent of the total dollar value of benefits recorded in fiscal year 2005. Additionally, our Inspector General (IG) performs an independent review of all accomplishment reports claiming benefits of \$500 million or more, which represented about 78 percent in fiscal year 2005.

Figure 1 lists several of our major financial benefits reported in fiscal year 2005 and briefly describes some of our work contributing to financial benefits.

**Figure 1: GAO's Selected Major Financial Benefits Reported in Fiscal Year 2005**



Source: See Image Sources.

Description	Amount
<p><b>Reduced funding for a missile defense system.</b> In an April 2003 report, we stated that to successfully develop an effective and suitable missile defense system, the Missile Defense Agency must be willing to adopt knowledge-based acquisition practices that have made other developers successful. Our report acknowledged that the agency's development strategy for the Kinetic Energy Interceptor program included knowledge-based practices, but concluded that the agency had not implemented two important practices: (1) using well-developed technologies during system integration and (2) fully testing a system before fielding it. In response, the Missile Defense Agency is scaling back development of the Kinetic Energy Interceptor program until technologies are mature. Over a 5-year period—from fiscal year 2005 through fiscal year 2009—program funding will be reduced by about \$5.2 billion, which has a net present value of about \$4.7 billion. (Goal 2)</p>	<p>\$4.7</p>
<p><b>Avoided higher costs associated with a nuclear waste disposal process.</b> In a June 2003 report, we recommended that the Department of Energy (DOE) pursue legislative clarification from the Congress because of a legal challenge that threatened DOE's ability to proceed with its less costly strategy for treating and disposing of radioactive tank wastes with lower concentrations of radioactivity. DOE estimated that pursuing a more expensive treatment and disposal strategy suitable for wastes with higher concentrations of radioactivity would increase waste treatment disposal costs by \$55 billion to \$60 billion at its Savannah River Site. The Fiscal Year 2005 National Defense Authorization Act contained a provision that clarified DOE's authority to follow its planned treatment and disposal strategy thus avoiding a more costly process. We calculated that the net present value of the cost avoidance for fiscal years 2005 through 2009 was about \$4.5 billion. (Goal 1)</p>	<p>\$4.5</p>

Description	Amount
<p><b>Improved the Army's force structure.</b> In a report examining the Army's force structure, we recommended that the Army establish mission criteria to provide a firmer basis for its Strategic Reserve, Domestic Support, and Homeland Defense force requirements. Such criteria would help to ensure that the Army had the right number and types of soldiers available for these purposes. Rather than request additional end strength, the Army reconfigured its existing force's structure. In April 2003, DOD reported that the Army had included force structure changes in its fiscal year 2004 budget, which supported increased units for military police; military intelligence; special forces; and chemical, civil affairs, and psychological operations. Based on this action, the Army has been able to rebalance its force structure to create needed units with minimal increases in authorized end strength. The amount shown represents the net present value of the force structure changes over a 5-year period (fiscal years 2004 through 2008). (Goal 2)</p>	\$3.4
<p><b>Reduced the cost of federally subsidized housing projects.</b> We determined that the Department of Housing and Urban Development (HUD) had not developed the systems it needed to track the status of unexpended balances in its project-based Section 8 housing program and therefore could not use this information to help manage the program and formulate budget requests for it. As a result of our work, the Congress required HUD to better enforce the legislative provisions requiring the recapture of capital funds not being utilized by public housing authorities. In fiscal year 2005, we documented—using HUD data—that a financial benefit of about \$2.7 billion in current dollars resulted from HUD's recapture of about \$2.5 billion of fiscal year 2003 dollars. (Goal 1)</p>	\$2.7
<p><b>Avoided costs associated with higher payment rates at skilled nursing homes.</b> In 2002, we assessed the impact of a 16.6 percent increase in Medicare's daily rate for skilled nursing facilities on nurse staffing ratios. Our analysis showed that nurse staffing ratios changed little from April 1, 2001, through September 30, 2002—the period during which the rate increase was in effect. In fiscal year 2003, the cost to the federal government of reinstating the payment rate increase was approximately \$1 billion per year. Since we issued our report, the Congress has considered reinstating the rate increase, but it has chosen not to, largely on the basis of our analysis. The net present value of the annual cost avoidance for fiscal years 2004 and 2005 is \$2 billion. (Goal 1)</p>	\$2.0

Description	Amount
<p><b>Increased tax revenues.</b> We reported that the Internal Revenue Service (IRS) did not have systems or procedures in place to allow it to identify and actively pursue unpaid tax cases that may have some collection potential. Based on our work, IRS has taken action to better assess the potential for collecting unpaid tax assessment cases and has used that information to better target its collection efforts. Specifically, in 2004 IRS began implementing a sophisticated modeling technology to identify productive and less productive cases to ensure that its resources are devoted to cases with a higher likelihood of collection and to help prevent premature suspension of collection efforts. IRS's analysis of the yield on collection cases after employing this modeling in fiscal year 2004 shows that this yield increased by about \$1.8 billion (in current year dollars), or 8.4 percent from the previous year (fiscal year 2003), without significant staffing level increases. (Goal 3)</p>	\$1.8
<p><b>Ensured continued investment in the General Services Administration's (GSA) online purchasing system.</b> As of 2003, GSA had spent \$84 million to develop, implement, and maintain Advantage, a system for ordering products and services online. However, 5 years after the system was launched, only 35 percent of all government-contracted vendors participated in the program, and agencies were largely using the system to compare pricing. To ensure GSA's level of investment matched customer needs, we recommended that the agency develop a business case for a system such as Advantage, and in January 2005, GSA selected a new business strategy that would significantly enhance the system's capabilities to serve as a broker between buyers and suppliers and provide agencies with an automated tool for formulating acquisition requirements and developing requests for quotes. GSA projects over \$1.5 billion in financial benefits to result from electronic transactions, spend analysis (analysis of expenditures that shows how money is spent on goods and services), a searchable procurement data repository, and competitive pricing. This financial benefit has a net present value of just over \$1.3 billion. (Goal 3)</p>	\$1.3
<p><b>Reduced Navy and Air Force appropriations.</b> DOD policy requires the Defense Working Capital Fund to maintain cash levels to cover 7 to 10 days of operational cash and 6 months of capital asset disbursements. Our analysis showed that the January 2004 reported actual cash balance for the Air Force Working Capital Fund exceeded the 10-day cash requirement by about \$1.5 billion, and the Navy's Working Capital Fund reported actual cash balance exceeded the budgeted cash balance by \$659 million and \$408 million at the end of fiscal years 2002 and 2003, respectively. The Congress reduced the Navy and Air Force fiscal year 2005 Operation and Maintenance appropriations by just under \$1.3 billion due to excessive cash amounts. (Goal 3)</p>	\$1.3

Description	Amount
<p><b>Eliminated the National Aeronautics and Space Administration's (NASA) Prometheus 1 project.</b> We issued a report questioning whether NASA had established the initial justification for its investment in the Prometheus 1 project and how the agency planned to ensure that critical nuclear power and propulsion system technologies were sufficiently developed to support deep space probes like the Jupiter Icy Moons Orbiter. We also reported that the approved Prometheus 1 funding profile was inadequate to support the planned mission—a launch to Jupiter's Icy Moons in 2015. NASA has subsequently deferred the Jupiter Icy Moons Orbiter mission indefinitely, reducing the agency's funding needs by about \$1.22 billion through fiscal year 2009; the net present value of this reduction is over \$1.1 billion. (Goal 3)</p>	\$1.1
<p><b>Reduced the budget request for a new foreign assistance program.</b> In March and June 2004, we provided the Congress with information to help it assess the President's \$2.5 billion fiscal year 2005 budget request for the Millennium Challenge Account—a new foreign assistance program intended to provide economic assistance to countries that demonstrate a commitment to ruling justly, investing in people, and encouraging economic freedom. Our work provided the Congress with a framework for identifying relationships and trade-offs between funding levels, compact length, and number of compacts (i.e., agreements). Our analysis indicated that by reducing assistance target levels, the length of compacts, or both with participating countries, the program could operate at a lower funding level. We also estimated the effect of funding compacts partly from future appropriations. Our work facilitated the Congress's decision to reduce the appropriation for the Millennium Challenge Account in fiscal year 2005 to \$1.5 billion. (Goal 2)</p>	\$1.0

Source: GAO.

**Other Benefits**

Many of the benefits that result from our work cannot be measured in dollar terms. During fiscal year 2005, we recorded a total of 1,409 other benefits. We documented 75 instances where the information we provided to the Congress resulted in statutory or regulatory changes, 595 instances where federal agencies used our information to improve services to the public, and 739 instances where agencies improved core business processes or governmentwide reforms as a result of

our work. These actions spanned the full spectrum of issues, from identifying that some soldiers had not been reimbursed for military-related travel costs they personally incurred to highlighting weaknesses in the Social Security Administration's policies for verifying birth certificates when issuing replacement Social Security cards. In figure 2 we provide examples of some of the other benefits we claimed as accomplishments in fiscal year 2005. The laws that we cite in the first section of this figure were passed in fiscal year 2005.

**Figure 2: GAO's Selected Other (Nonfinancial) Benefits Reported in Fiscal Year 2005**



Source: See Image Sources.

### Other benefits that helped to change laws

#### **Intelligence Reform and Terrorism Prevention Act of 2004 (Pub. L. No. 108-458)**

In our May 2004 testimony on the use of biometrics for aviation security, we reported on the need to identify how biometrics will be used to improve aviation security prior to making a decision to design, develop, and implement biometrics. Using information from our statement, the House introduced a bill on July 22, 2004, directing the Transportation Security Administration (TSA) to establish system requirements and performance standards for using biometrics, and to establish processes to (1) prevent individuals from using assumed identities to enroll in a biometric system and (2) resolve errors. These provisions were later included in an overall aviation security bill and were eventually included in the Intelligence Reform and Terrorism Prevention Act of 2004, enacted in December 2004. (Goal 2)

We also conducted a body of work assessing the physical screening of airport passengers and their checked baggage. We found that the installation of systems that are in line with airport baggage conveyor systems may result in financial benefits according to TSA estimates for nine airports. We also found that the effectiveness of the advance passenger screening under the process known as Secure Flight was not certain. TSA agreed to take corrective actions in these areas, and the Congress required TSA in the Intelligence Reform and Terrorism Protection Act to prepare a plan and guidelines for installing in-line baggage screening systems, and enacted measures to promote Secure Flight's development and implementation. (Goal 1)

#### **Real ID Act of 2005 (Pub. L. No. 109-13)**

We reported on the verification of identity documents for drivers' licenses, noting that visual inspection of key documents lent itself to possible identity fraud. To demonstrate this, our investigators were able to obtain licenses in two states using counterfeit documents and the Social Security numbers of deceased persons. The Congress established federal identification standards for state drivers' licenses and other such documents and mandated third-party verification of identity documents presented to apply for a driver's license. (Goal 1)

**Ronald W.  
Reagan National  
Defense  
Authorization  
Act for Fiscal  
Year 2005  
(Pub. L.  
No. 108-375)**

We assisted the Congress in crafting major improvements to a program intended to compensate individuals who worked in DOE facilities and developed illnesses related to radiation and hazardous materials exposure. In a 2004 report, we identified features of the originally enacted program that would likely lead to inconsistent benefit outcomes for claimants, in part because the program depended on the varying state workers compensation systems to provide some benefits. We also presented several options for improving the consistency of benefit outcomes and a framework for assessing these options. When the Congress enacted the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, it revamped this energy employees benefit program. Among other changes, this law federalized the payment of worker compensation benefits for eligible energy contractor employees and provided a schedule of uniform benefit payments. (Goal 1)

**Federal Lands  
Recreation  
Enhancement  
Act (Pub. L.  
No. 108-447)**

Our work over the past several years has helped the Congress to establish and assess the impacts of the recreational fee demonstration program. Under this trial program, the Congress authorized the National Park Service, the Fish and Wildlife Service, the Bureau of Land Management, and the Forest Service to charge fees to visitors to, among other things, reduce the maintenance backlog at federal parks and historic places and protect these lands from visitor impacts. Since the program's inception in 1996, we identified issues that needed to be addressed to improve the program's effectiveness that included providing (1) a more permanent source of funds to enhance stability, since the current program had to be reauthorized every 2 years; (2) the participating agencies with greater flexibility in how and where they apply fee revenues; and (3) improvements in interagency coordination in the collection and use of revenue fees to better serve visitors by making the payment of fees more convenient and equitable and reducing visitor confusion about similar or multiple fees being charged at nearby or adjacent federal recreational sites. As a result of this body of work, the Congress addressed these issues by passing the Federal Lands Recreation Enhancement Act in December 2004. This act permits federal land management agencies to continue charging fees at campgrounds, rental cabins, high-impact recreation areas, and day-use sites that have certain facilities. The act also provides for a nationally consistent interagency program, more on-the-ground improvements at recreation sites across the nation, enhanced visitor services, a new national pass for use across interagency federal recreation sites and services, and public involvement in the program. (Goal 1)

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**Consolidated  
Appropriations  
Act, 2005  
(Pub. L.  
No. 108-447)**

At the time of our August 2003 report, the original 1999 expiration date for the franchise fund pilots operating at six federal agencies had been extended three times. These franchise funds, authorized by the Government Management Reform Act of 1994, are part of a group of 34 intragovernmental revolving funds that were created to provide common administrative support services required by many federal agencies, including, for example, information technology (IT) infrastructure support services. We concluded that increasing the period of authorization would help ease concerns of current and potential clients about franchise fund stability and might allow franchise funds to add new business lines, and we suggested that the authorizations be extended for longer periods. The Congress provided permanent authority to the Treasury franchise fund in the Consolidated Appropriations Act, 2005, passed on December 8, 2004. (Goal 3)

Also in 2003, we reported that most agencies could not retain the proceeds from the sale of unneeded property and this acted as a disincentive to disposing of unneeded property. We stated in our high-risk report on federal real property that it may make sense to permit agencies to retain proceeds for reinvestment in real property where a need exists. Subsequently, in the Consolidated Appropriations Act, 2005, the Congress authorized the Administrator of GSA to retain the net proceeds from the conveyance of real and related personal property. These proceeds are to be deposited into the Federal Buildings Fund and are to be used as authorized for GSA's real property capital needs. (Goal 1)

In December 2003, we reported that 184 out of 213 Alaska Native villages are affected, to some extent, by flooding and erosion. However, these villages often have difficulty qualifying for federal assistance to combat their flooding and erosion problems. In our report, we recommended that the Denali Commission adopt a policy to guide investment decisions and project designs in villages affected by flooding and erosion. In this legislation, the Congress provided the Secretary of the Army authority to carry out "structural and non-structural projects for storm damage prevention and reduction, coastal erosion, and ice and glacial damage in Alaska, including relocation of affected communities and construction of replacement facilities." (Goal 1)

To improve the federal government's ability to collect billions of dollars of outstanding criminal debt, we recommended in a 2001 report, that the Department of Justice work with other agencies involved in criminal debt collection to develop a strategic plan that would improve interagency processes and coordination with regard to criminal debt collection activities. The conference report that accompanied the Consolidated Appropriations Act, 2005, directed the Attorney General to assemble an interagency task force for the purpose of better managing, accounting for, reporting, and collecting criminal debt. (Goal 3)

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### Other benefits that helped to improve services to the public

#### Encouraged improvements in the process for ensuring states' compliance with education laws for the disabled

Our report found that the Department of Education's (Education) system for resolving noncompliance with the Individuals with Disabilities in Education Act is protracted. We found that resolution of noncompliance cases often takes several years, in part because Education took a year on average from the time it identified noncompliance to issue a report citing the noncompliance. We therefore recommended that Education improve its system of resolving noncompliance by shortening the amount of time it takes to issue a report of noncompliance and by tracking changes in response times under the new monitoring process. In response to our recommendation, Education has instituted an improved process for managing and tracking the various phases of the monitoring process, which includes the creation of a database to facilitate this tracking. This new tracking system will enable Education to better monitor the status of existing noncompliance, and thus enable the department to take appropriate action when states fail to come into compliance in a timely manner. (Goal 1)

#### Identified a weakness in Medicare's telephone assistance service

In 2004, we found that the 24-hour 1-800-MEDICARE help line, operated by the Centers for Medicare & Medicaid Services (CMS), did not answer 10 percent of the calls we placed to test its accuracy, often because it automatically transferred some calls to claims administration contractors that were not open for business at the time of the call. This call transfer process prohibited callers from accessing information during nonbusiness hours, even though 1-800-MEDICARE operates 24 hours a day. As a result, we recommended that CMS revise the routing procedures of 1-800-MEDICARE to ensure that calls are not transferred or referred to claims administration contractors' help lines during nonbusiness hours. In response, CMS finished converting its call routing procedures. As a result, calls placed after normal business hours will be routed to the main 1-800-MEDICARE help line for assistance. (Goal 1)

#### Highlighted the need for increased security at a federal disease research facility

U.S. Department of Agriculture (USDA) scientists at the Plum Island Animal Disease Center research contagious animal diseases that have been found in other countries. The mission of the facility, now administered by the Department of Homeland Security (DHS), is to develop strategies for protecting the nation's animal industries and exports from these foreign animal diseases. In our September 2003 report, *Combating Bioterrorism: Actions Needed to Improve Security at Plum Island Animal Disease Center*, we made several recommendations to improve security at the facility and reduce vulnerability to terrorist attacks. Among other things, we recommended that the Secretary of Homeland Security, in consultation with the Secretary of Agriculture, enhance incident response capability by increasing the size of the guard force. DHS has informed us that this has been completed. According to the Director of Plum Island, DHS has more than doubled the number of guards assigned on each shift on Plum Island. (Goal 1)

**Other benefits that helped to promote sound agency and governmentwide management**

**Recommended a process to increase the efficiency of DOD procurements**

DOD spending on service contracts approaches \$100 billion annually, but DOD's management of services procurement is inefficient and ineffective and the dollars are not always well spent. Many private companies have changed management practices based on analyzing spending patterns and coordinating procurement efforts in order to achieve major savings. We recommended that DOD adopt the effective spend analysis processes used by these leading companies and use technology to automate spend analysis to make it repeatable. In response, DOD is developing new technology to do that. According to DOD and contractor project managers, one phase of the project was completed in December 2004. In March 2005, DOD approved a business case analysis to seek follow-on funding for developing a DOD-wide spend analysis system. (Goal 2)

**Improved the Air Force's oversight of purchase card transactions**

As part of our audit of Air Force purchase card controls, we identified transactions that Air Force officials acknowledged to be fraudulent as well as potentially fraudulent transactions that the Air Force had not identified. To improve Air Force oversight of purchase card activity and facilitate the identification of systemic weaknesses and deficiencies in existing internal control and the development of additional control activities, we recommended that the Air Force establish an agencywide database of known purchase card fraud cases. In lieu of establishing a separate agencywide database, during fiscal year 2003, the Air Force Office of Special Investigations initiated quarterly reporting on its purchase card investigations to the DOD IG for macro-level analysis of systemic weaknesses in the program. Our ongoing collaboration with the DOD IG on DOD's purchase card program confirmed that the Air Force's Office of Special Investigations is working effectively with DOD's IG on data-mining techniques for detection of potentially improper and fraudulent purchase card transactions. As a result of our work, the Air Force has taken action to reduce the financial risk associated with undetected fraud and abuse in its purchase card program. (Goal 3)

**Encouraged the Census Bureau to produce training materials in other languages**

For the 2000 Census, the United States Census Bureau (Bureau) printed material used to train census workers only in English, except in Puerto Rico where training materials were available in Spanish. However, to better prepare census workers—some of whom speak Spanish as their first language—to locate migrant farm workers and other hard-to-count groups, we recommended that the Bureau consider providing training materials in languages other than English to targeted areas. In response to our recommendation, the Bureau is researching foreign-language data collection methods as part of its preparations for the 2006 Census test and, more generally, plans to identify areas and operations that will require in-language training materials for areas with very large, new migrant populations where it will not be possible to hire bilinguals. Moreover, the Bureau's June 2005 request for proposals for a Field Data Collection Automation System includes a requirement for the contractor to provide training applications and materials in English and Spanish for the handheld computers enumerators are to use to count nonrespondents. (Goal 3)

Source: GAO.

In addition to the financial and other benefits claimed in fiscal year 2005 from our work, we also achieved the following results.

*Past Recommendations Implemented*

One way we measure our effect on improving the government's accountability, operations, and services is by tracking the percentage of recommendations that we made 4 years ago that have since been implemented. At the end of fiscal year 2005, 85 percent of the recommendations we made in fiscal year 2001 had been implemented, primarily by executive branch agencies. Putting these recommendations into practice will generate tangible benefits for the nation in the years ahead. The 85 percent implementation rate for fiscal year 2005 exceeded our target for the year by 5 percentage points as well as our actual performance for the last 4 years. Because

agencies need time to act on recommendations, we assess recommendations implemented after 4 years, the point at which experience has shown that if a recommendation has not been implemented, it is not likely to be.

*New Products Containing Recommendations*

This year, about 63 percent of the 637 written products we issued (excluding testimonies) contained recommendations. We track the percentage of new products with recommendations because we want to encourage staff to develop recommendations that when implemented by the Congress and agencies, produce financial and other benefits for the nation. However, by setting our target at 55 percent, we recognize that our products do not always include recommendations and that the Congress and agencies often find such informational reports just as useful as

those that contain recommendations. Our informational reports have the same analytical rigor and meet the same quality standards as those with recommendations and, similarly, can help to bring about significant financial and other benefits. Hence, this measure allows us ample leeway to respond to requests that result in reports without recommendations.

### *Client Measures*

To fulfill the Congress's information needs, we strive to deliver the results of our work orally as well as in writing at a time agreed upon with our clients.

### *Testimonies*

Our clients often invite us to testify on our current and past work when it addresses issues that congressional committees are examining through the hearing process. During fiscal year 2005, experts from our staff testified at 179 congressional hearings covering a wide range of complex issues. For example, our senior executives testified on improving the security of nuclear material, federal oversight of mutual funds, and the management and control of DOD's excess property. (See p. 28 for a summary of issues we testified on by strategic goal in fiscal year 2005.) Over 70 of our testimonies were related to high-risk areas and programs, which are discussed on page 35.

However, in spite of our willingness to testify for our clients, we did not meet our fiscal year 2005 target of 185 testimonies, primarily because congressional committees either canceled or postponed several hearings at which our senior executives were scheduled to testify to focus instead on key events such as Hurricane Katrina.

### *Timeliness*

We track the percentage of our products that are delivered on or before the day we agreed to with our clients because it is critical that our work be done on time for it to be used by policymakers. In fiscal year 2005 we missed our target of providing 98 percent of them by the promised date.

As part of its periodic review of our performance measures, the IG independently examined our process for calculating product timeliness and found evidence that some staff may be inconsistently applying the policy for changing a committed issue date, which ultimately affects the reliability of this measure. The IG also noted that the internal reporting approach may not adequately represent the most complete assessment of the requesters' satisfaction with our ability to deliver products when our clients need them. The IG recommended that GAO management strengthen the guidance for determining timeliness and consider developing an alternative, more independent measure to gauge performance in this area. Therefore, begin-

ning in fiscal year 2006, we will use the results of our client feedback survey as a barometer for how well we are getting our products to the Congress when it needs them. We will use this survey as the primary data source for our external timeliness measure because the responses come directly from our clients and are free from significant input by our staff. However, we will continue to use our current process as a supplemental check for determining timeliness. For further information about this measure, see [page 87](#) in our full performance and accountability report.

### *People Measures*

We could not have performed as well as we did in fiscal year 2005 without the support and commitment of our highly professional, multidisciplinary staff. Our ability to hire, develop, retain, and lead staff is critical to fulfilling our mission of serving the Congress and the American people. Since 2002, we have refined our processes

for measuring how well we manage our human capital and have benchmarked our performance in this area. Fiscal year 2005 was the first year we held our managers accountable for our eight people measures, and we met six of them—slightly missing our targets for new hire rate and acceptance rate by only a few percentage points. These measures are directly linked to our goal 4 strategic objective of becoming a professional services employer of choice.

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On the pages that follow our selected list of testimonies, we highlight our performance under each of our strategic goals; discuss our 21st century challenges report and high-risk update; and describe strategies for achieving those strategic goals, our management challenges, the external factors we face, and the resources we used to achieve our performance results.

# Selected Testimony Issues

Fiscal Year 2005

## GOAL 1:

### Address Challenges to the Well-Being and Financial Security of the American People

- Head Start grants management
- Preparing for an influenza pandemic
- Overseeing the U.S. food supply
- Retirement options for seniors
- Long-term health care costs and government budgets
- Energy demand in the 21st century
- Postal service reform legislation
- Veterans' disability claims
- Social Security reform
- Wildland fire management
- Medicaid financing issues
- Meeting the future demand for energy in the United States
- National air traffic system
- Amtrak's Acela train
- Protecting nuclear material handled at science and environmental sites
- Providing services to seriously injured veterans
- Rural housing service
- Federal real property
- Endangered Species Act
- Federal oversight of the E-rate program

## GOAL 2:

### Respond to Changing Security Threats and the Challenges of Globalization

- Army's modular forces
- U.S. passport fraud
- Cargo security strategies
- Acquisition challenges facing the Navy's DD(X) destroyer program
- Tactical aircraft modernization
- DOD security clearances
- Oil for Food program
- Unmanned aerial vehicles
- Condition of Coast Guard aircraft and ships used in deep waters
- Managing violations of restricted air space
- Federal oversight of mutual funds to ensure investor security
- Port security
- Protecting U.S. officials overseas from terrorist attacks
- DOD's business transformation
- Transportation security issues
- Implementing laws that protect the security of information
- DOD's national security personnel system
- Acquisition challenges facing the Army's future combat systems

## GOAL 3:

### Help Transform the Federal Government's Role and How It Does Business

- Long-term fiscal issues affecting the federal government
- Gaps in military pay and benefits
- 21st century challenges for the federal government
- Air Force procurement protests
- Human capital transformation at DHS
- Preparing for emergencies at federal agencies
- Space shuttle workforce issues
- Reducing the tax gap
- U.S. government financial statements
- Management and control of DOD's excess property
- Pricing federal multiple award contracts
- Performance budgeting
- High-risk federal programs
- Army National Guard travel reimbursement issues
- Space acquisitions and investment planning
- Improper Payments Information Act
- Agencies' continuity of operations plans
- DHS's Student and Exchange Visitor Information System

## Goal 1 Results

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



Source: See Image Sources.

### Financial Benefits: \$15.6 Billion (Target: \$19.6 Billion)

- **Reducing nuclear waste cleanup costs:** Financial benefits valued at \$4.5 billion arose from costs avoided after the implementation of our recommendation that DOE seek legislation to allow more economical treatment and disposal of high-level nuclear wastes.
- **Improving air traffic control systems:** The Federal Aviation Administration (FAA) reviewed its Facilities and Equipment account and reduced its initial budget request by \$393 million for several air traffic systems that had experienced chronic delays and cost overruns, largely by targeting vulnerabilities that we had identified in our analyses and by using management processes we recommended based on our past work.
- **Identifying funds to address hazardous waste sites:** Our work has been instrumental in the Environmental Protection Agency's efforts to identify, deobligate, and reuse \$189.3 million in unspent funds from expired projects in the Superfund program, which has offset the need for additional appropriations.
- **Identifying a potentially duplicative structure for job training funding:** We suggested that the Department of Labor's (DOL) proposal for a new \$250 million program for community-based job training grants would create a new administrative structure for allocating training funds to community colleges and may duplicate the system currently in place. Based on our work, the Congress appropriated \$125 million instead of DOL's initial request.

### Other Benefits: 277 (Target: 240 Other Benefits)

- **Paying properly for power wheelchairs for Medicare beneficiaries:** On the basis of our finding that the information provided to Medicare contractors that process wheelchair claims—one of the program's most expensive items—provided insufficient detail, new requirements were established to make more information available.
- **Monitoring states' inventories of childhood vaccines:** The Centers for Disease Control and Prevention implemented our recommendation to develop a strategic plan that includes steps to monitor childhood vaccine supplies in state depots, which should help ensure that the adequate inventories are available.
- **Estimating tobacco retailer violation rates:** Our work led the Department of Health and Human Services (HHS) to increase oversight of states' monitoring of tobacco retailers; for example, HHS now visits states to help assess the accuracy and completeness of tobacco outlet lists and works with states to improve standardization of inspection protocols.



Sources: GAO, United States Mint coin image.

## Goal 2 Results

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



Source: See Image Sources.

### Financial Benefits: \$13.0 Billion (Target: \$9.4 Billion)

- **Improving DOD's missile defense system acquisitions:** A financial benefit of about \$4.7 billion stemmed from our findings that the Missile Defense Agency could scale back its system development efforts until required technologies are more mature.
- **Improving management of funds for officers' housing:** In May 2004, we reported that 13 renovation projects for general and flag officer quarters—6 Navy and 7 Marine Corps—exceeded the services' cost estimates and that about 45 percent of the increased costs were related to customer-driven changes. The Congress subsequently reduced the services' (Army, Navy, Air Force, and Marines) family housing operations and maintenance budget requests by about \$10.8 million in total citing our work on this subject.

### Other Benefits: 365 (Target: 300 Other Benefits)

- **Improving controls covering technology exports:** We found that a gap in control regulations covering exports with both military and civilian applications could enable individuals in most countries to legally obtain these items without any U.S. government review and that these items could be used to help make a cruise missile or unmanned aerial vehicle. The Department of Commerce subsequently proposed modifications to its regulations to help close the regulatory gap.
- **Strengthening the visa process as an antiterrorism tool:** Using our work as a primary guide, the Department of State strengthened the visa process as an antiterrorism tool by, among other things, issuing guidance emphasizing national security as the department's first priority in the visa process; developing over 80 standard operating procedures to ensure that consular officers properly review visa applications and effectively fulfill their national security responsibilities; and developing and enhancing training on analytic interviewing techniques, fraud prevention, counterterrorism, and use of a name check system for passports and visa applications.
- **Ensuring decisions to transfer U.S. weapons and technologies to foreign governments are adequately informed:** We found that the National Disclosure Policy Committee—which approves or denies requests for exceptions to the criteria used to determine if classified weapons or technologies can be released to the requesting country—was operating with outdated Central Intelligence Agency risk assessments. Acting on our recommendations, the committee's Executive Secretariat requested that the Central Intelligence Agency provide updated risk assessments for 23 countries, and those assessments are under way.



Sources: GAO, United States Mint coin image.

## Goal 3 Results

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



Source: See Image Sources.

### Financial Benefits: \$11.0 Billion (Target: \$8.5 Billion)

- **Improving IRS's methodology for pursuing delinquent taxes:** A financial benefit of about \$1.8 billion stemmed from our findings that led IRS to increase revenue collections by improving its capacity to assess the collectibility of delinquent taxes and to decide on which debts to focus collection efforts.
- **Avoiding costs associated with the Small Business Administration's (SBA) loan monitoring system:** We recommended that SBA perform benefit-cost analyses for systems alternatives to better ensure that the agency would meet its needs for a new loan monitoring system at the lowest cost. As a result, SBA stopped its in-house system development work and contracted with a firm to perform its loan monitoring services. Consequently, we were able to document cost avoidances that led to \$5.6 million in financial benefits this fiscal year.

### Other Benefits: 767 (Target: 460 Other Benefits)

- **Adding rigor to the Coast Guard's oversight of Deepwater program contractors:** We found that (1) the Coast Guard's evaluation of a contractor responsible for developing and delivering assets for the Deepwater program—established to modernize the Coast Guard's aging fleet of ships and aircraft—lacked the necessary rigor to be effective and (2) two subcontractors were solely responsible for deciding whether to compete assets or make the assets themselves. Based on our recommendations, the Coast Guard improved the criteria for assessing the system integrator's performance and required the subcontractors to provide notification of decisions to make assets valued at \$10 million or more.
- **Preventing improper sales of sensitive clothing and textile items:** On the basis of our findings that it improperly sold over the Internet excess clothing with reflectant properties that prevent detection with infrared technologies, DOD issued a more stringent policy, which determined that these items are of a sufficiently critical and sensitive nature to require total destruction—an action that should help prevent this sensitive technology from falling into the wrong hands.
- **Improving accountability at DOL:** We recommended that the Office of Management and Budget (OMB) revise its audit guidance related to testing to be able to positively state whether agency financial management systems comply with requirements (positive assurance). DOL's IG advised us that it had followed our advice and became the first federal agency to provide positive assurance.
- **Improving NASA's cost-estimating processes:** Acting on our recommendations, NASA has removed barriers to cost estimation—such as the lack of reliable financial and performance data and the lack of incentives to measure and monitor cost trends—and improved its cost-estimating practice.



Sources: GAO, United States Mint coin image.

## Goal 4 Results

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



Source: See Image Sources.

- Improving dissemination of GAO products:** We continued our pilot to produce and disseminate GAO reports in an electronic format, and based on the positive client feedback we received on the approximately 25 reports we provided in electronic format, we plan to make the use of electronic products routine. We also improved the process for creating and posting to our Web site the electronic supplements to our reports, enabling our staff to view all features of a supplement before it is posted on the Internet, easing navigation within the electronic supplement, and more readily identifying the product as a GAO product.
- Enhancing our classification and compensation systems:** We directly linked the process for determining compensation to an individual's performance, as reflected on the appraisal, and used a market-based compensation study that allows us to design a competitive, fair, and equitable compensation program that is aligned with competitive labor markets in which we compete for talent. In addition, our administrative and professional support staff completed their first year under a broadband pay system and a competency-based performance system.
- Improving engagement support services:** We revised the Audit Documentation Set to help ensure that our engagements are consistent with the generally accepted auditing standards and our Quality Assurance Framework and that our work and engagement-related decisions have been systematically documented. The streamlined and simplified document eliminates duplicate requirements and documentation of steps, thereby saving staff time.
- Improving customer service through use of Web-based technology:** We upgraded our Web-based time and attendance system and our automated competency-based performance system, developed and implemented a Web-based request system for scheduling GAO vans and drivers that transport our staff to official meetings, redesigned the Web-based phone book, and deployed a major enhancement to our Web-based employee locator system.
- Ensuring our IT security:** We installed personal firewall software, implemented changes to ensure desktop security and foil spyware, and implemented an integrated security approach for our Web-based systems.
- Ensuring our physical security:** We enhanced our physical security by completing perimeter security efforts, including installation of high-speed rollup doors, guard booths, undervehicle cameras, pop-up barriers, and a perimeter plinth wall.



Sources: GAO, United States Mint coin image.

## 21st Century Challenges

We have long had a statutory responsibility for monitoring the condition of the nation's finances. Recently, in our role as the auditor of the U.S. government's consolidated financial statements, we included an emphasis paragraph in our audit report for the fiscal year ended September 30, 2005, expressing our concern that the nation's current fiscal path is unsustainable and that tough choices by the President and the Congress are necessary in order to address the nation's large and growing long-term fiscal imbalance. This conclusion is based on the results of our long-term budget model, which we have used since 1992.

Over the long term, the nation's growing fiscal imbalance stems primarily from the aging of the population, rising health care costs, and lower federal revenues as a percentage of the economy. These trends are compounded by the presence of near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share of the economy. Absent significant changes on the spending side, the revenue side, or both sides of the budget, these long-term deficits will encumber a growing share of federal resources and test the capacity of current and future generations to afford both today's and tomorrow's commitments. Continuing on this unsustainable path will gradually erode, if not suddenly damage, our

economy, our standard of living, and ultimately our national security.

Addressing the nation's long-term fiscal imbalances constitutes a major transformational challenge that may take a generation to resolve. Given the size of our projected deficit, we will not be able to grow our way out of this problem—tough choices will be required. In addition, traditional incremental approaches to budgeting will need to give way to more fundamental and periodic reexaminations of the base of government, ultimately covering discretionary and mandatory programs as well as the revenue side of the budget. The nature and magnitude of the fiscal, security, economic, and other adjustments that need to be considered are not amenable to “quick fixes;” rather they will likely require an iterative, thoughtful process of disciplined changes and reforms over many years.

We produced the 21st century challenges report (see *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP) to help the Congress review and reconsider the base of federal spending and tax programs. It is intended as one input among many that the Congress will receive as it decides what its agenda will be for oversight and program review. We have framed the issues presented as illustrative questions for policymakers to consider as a supplement to their own efforts. The

questions are drawn from our issued work, our strategic plan prepared in consultation with the Congress, input from several IGs, and the institutional knowledge of our staff. They cover discretionary spending; mandatory spending, including entitlements; and tax policies and programs. While answers to these questions may draw on our work and that of others, only elected officials can and should decide which questions to address as well as how and when to address them.

Having identified the major fiscal challenge facing the nation, and given our role in supporting the Congress, we believe that we also have an obligation to provide policymakers with support in identifying issues and options that could help to address these fiscal pressures. In our 21st century challenges report, we built on our past and pending work—about 90 percent of which was requested by the Congress or required by law—to provide policymakers with a comprehensive compendium of those areas throughout government that could be ripe for reexamination and review. The report is consistent with our other products, such as our high-risk reports (dis-

cussed on p. 35), in that it pulls together our insights and previous work for the Congress to help with its budget and programmatic deliberations and oversight activities.

In developing the 21st century questions posed in the report, we reflected on the inventory of future forces working to reshape American society, our place in the world, and the various roles and responsibilities of the federal government that were presented in our strategic plan. The specific questions raised for each area were informed by a set of generic evaluation criteria that are useful in evaluating any government program, policy, function, or activity. The criteria are framed as questions and are designed to address the legislative basis for the program, its purpose and continued relevance, its effectiveness in achieving goals and outcomes, its efficiency and targeting, its affordability, its sustainability, and its management. We used these criteria to generate specific 21st century questions about those programs and priorities already identified. The 21st century questions illustrate the kinds of issues that a reexamination and review initiative needs to address.

# GAO's High-Risk Program

Issued to coincide with the start of each new Congress, our high-risk update has helped sustain attention from members of the Congress who are responsible for oversight and from executive branch officials who are accountable for performance. Our high-risk program focuses on major government programs and operations that need urgent attention or transformation to ensure that our government functions in the most economical, efficient, and effective manner possible. Overall, our high-risk program has served to identify and help resolve a range of serious weaknesses that involve substantial resources and provide critical services to the public. Our latest report, released in January 2005, highlights 25 troubled areas across government. Of the 43 areas that have appeared on our high-risk list since 1990, 16 have improved enough to be removed from the list and 2 have been consolidated with other areas.

Our high-risk program includes the following four high-risk areas added in fiscal year 2005:

- establishing appropriate and effective information-sharing mechanisms to improve homeland security,
- DOD approach to business transformation,
- DOD personnel security clearance program, and

- management of interagency contracting.

We also removed the high-risk designation from three areas: Education's student financial aid programs, FAA's financial management, and USDA's Forest Service financial management.

In fiscal year 2005, excluding our high-risk update report and its companion testimony, we issued 183 reports and delivered 75 testimonies related to our high-risk areas and documented related financial benefits totaling about \$26 billion. For example, we examined challenges in the implementation and transformation of DHS, such as strengthening internal controls and addressing weaknesses in financial systems, fully establishing and institutionalizing a departmentwide strategic framework for managing information, and addressing systematic problems in human capital and acquisition systems, resulting in 19 reports and 11 testimonies. We also evaluated the Medicare program and found weaknesses in program management and oversight of patient safety and care, inefficient payment policies, and areas vulnerable to fraud and abuse. Our work in this area resulted in approximately \$3.9 billion in financial benefits for fiscal year 2005. Our efforts continue to bring attention to areas in urgent need of improvement and to help the Congress and federal government institute reforms to address these high-risk areas.

To learn more about our work on the high-risk areas shown in table 2 or to download the high-risk update in full,

go to <http://www.gao.gov/docsearch/featured/highrisk.html>.

**Table 2: GAO's 2005 High-Risk List**

2005 high-risk area	Year designated high-risk	GAO's strategic goal
<b>Addressing challenges in broad-based transformations</b>		
Strategic Human Capital Management <sup>a</sup>	2001	3
U.S. Postal Service Transformation Efforts and Long-Term Outlook <sup>a</sup>	2001	1
Managing Federal Real Property <sup>a</sup>	2003	1
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997	3
Implementing and Transforming the Department of Homeland Security	2003	2
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005	3
DOD Approach to Business Transformation <sup>a</sup>	2005	2
DOD Business Systems Modernization	1995	3
DOD Personnel Security Clearance Program	2005	2
DOD Support Infrastructure Management	1997	2
DOD Financial Management	1995	3
DOD Supply Chain Management (formerly Inventory Management)	1990	2
DOD Weapon Systems Acquisition	1990	2
<b>Managing federal contracting more effectively</b>		
DOD Contract Management	1992	2
DOE Contract Management	1990	1
NASA Contract Management	1990	2
Management of Interagency Contracting	2005	2

<b>Assessing the efficiency and effectiveness of tax law administration</b>		
Enforcement of Tax Laws <sup>a,b</sup>	1990	3
IRS Business Systems Modernization <sup>c</sup>	1995	3
<b>Modernizing and safeguarding insurance and benefit programs</b>		
Modernizing Federal Disability Programs <sup>a</sup>	2003	1
Pension Benefit Guaranty Corporation Single-Employer Insurance Program <sup>a</sup>	2003	1
Medicare Program <sup>a</sup>	1990	1
Medicaid Program <sup>a</sup>	2003	1
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994	1
<b>Other</b>		
FAA Air Traffic Control Modernization	1995	3

Source: GAO.

<sup>a</sup>Legislation is likely to be necessary as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

<sup>b</sup>Two high-risk areas—collection of unpaid taxes and earned income credit noncompliance—have been consolidated to make this area.

<sup>c</sup>The IRS financial management high-risk area has been incorporated into this high-risk area.

# Strategies for Achieving Our Goals

The Government Performance and Results Act directs agencies to articulate not just goals, but also strategies for achieving those goals. As detailed in the following sections, our strategies primarily emphasize providing information from our work to the Congress and the public in a variety of forms and continuing and strengthening our internal operations. Our strategies also emphasize the importance of two overarching approaches: (1) working with other organizations on crosscutting issues and (2) effectively addressing the challenges to achieving our agency's goals and recognizing the internal and external factors that could impair our performance. Through these strategies, which have proven successful for us for a number of years, we plan to achieve the level of performance that is needed to meet our performance measures and our multiyear performance goals that in turn will allow us to achieve our strategic goals.

In fiscal year 2005, we devoted 87 percent of our engagement resources to work requested or mandated by the Congress. We initiated the remaining 13 percent of the engagement work under the Comptroller General's authority. Much of this work was related to government programs and operations that we have identified as high risk for fraud, abuse, and misman-

agement; reviews of agencies' budget requests; and various emerging challenges that are of broad-based interest to the Congress, such as the cost of the Global War on Terrorism and the status of the reconstruction efforts in Iraq.<sup>1</sup> By making recommendations to improve the accountability, operations, and services of government agencies, we contribute to increasing the effectiveness of federal spending and enhancing the taxpayers' trust and confidence in their government. Collectively, our products always contain information and often conclusions and recommendations that allow us to achieve our external strategic goals.

Another means of ensuring that we are achieving our goals is to examine the impact of our past work and use that information to shape our future work. We evaluate actions taken by federal agencies and the Congress in response to our past recommendations by monitoring the status of our open recommendations and reporting our findings annually to the Congress and the public (<http://www.gao.gov/openrecs.html>). Similarly, we will use our biennial high-risk report, most recently issued in January 2005, to provide a status report on major government operations that we consider high risk because they are vulnerable to waste, fraud, abuse, and mismanage-

<sup>1</sup>In fiscal years 2003 and 2004, the work performed under the Comptroller General's authority represented 8 percent and 10 percent, respectively, of our engagement efforts.

ment or are in need of broad-based transformation. And we will use our report on 21st century challenges, which was issued in February 2005, to alert the nation's leaders to current and emerging issues facing the nation, including the long-range budget challenge, the human capital crisis, postal reforms, and the federal government's financial management efforts.

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

### *Strategic and Annual Work Planning*

Through a series of forums, advisory boards, and panels; periodic environmental scans; and our speakers' series, we gather information and perspectives for our strategic and annual planning efforts. In fiscal year 2005, the Comptroller General convened various experts from the public, private, and nonprofit sectors in a series of forums and panels intended to enhance our understanding of emerging issues and to identify opportunities for action.

- In December 2004, we hosted a forum on long-term fiscal challenges and issued a report summarizing the discussion in February 2005.
- In February 2005, we convened a forum on defined benefits pension plans, the results of which were reported in June 2005.
- In March 2005, we convened a roundtable involving the accountability community on long-term fiscal challenges, the results of which were summarized and shared with the participants.
- Throughout 2005, we held five sessions of our speakers' series, Conversations on 21st Century Challenges, wherein prominent leaders discuss emerging themes and their implications for public policy. In 2005, we also initiated the Auditors General Speakers' Series that provides unique international perspectives in support of our work; speakers included the auditors general of China, Ireland, South Korea, and Saudi Arabia.

Advisory boards and panels also support our strategic and annual work planning by alerting us to issues, trends, and lessons learned across the national and international audit communities that we should factor into our work. These groups include the Comptroller General's Advisory Board whose 40 members from the public and private sectors have broad expertise in areas related to our strategic objectives.

Through the National Intergovernmental Audit Forum, chaired by the Comptroller General and 10 regional intergovernmental audit forums, we consult regularly with federal inspectors general and state and local auditors. In addition, through the Domestic Working Group, the Comptroller General and the heads of 18 federal, state, and local audit organizations exchange information and seek opportunities to collaborate.

We also work with a number of issue-specific and technical panels to improve our strategic and annual work planning, including the following:

- The Advisory Council on Government Auditing Standards provides us guidance on promulgating auditing standards. These standards articulate auditors' responsibilities when examining government organizations; programs; activities; functions; and government assistance received by contractors, nonprofits, and other nongovernmental organizations. The council's work ensured that the revised standards would be generally accepted and feasible.
- The Accountability Advisory Council, made up of experts in the financial management community, advises us on audits of the U.S. government's consolidated financial

statements and emerging issues involving financial management and accountability reporting.

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

Internationally, we serve on the board and have several leadership roles in the International Organization of Supreme Audit Institutions (INTOSAI)—the professional organization of the national audit offices of 186 countries. During the fall of 2004, the INTOSAI Congress unanimously adopted a 5-year strategic plan—the first in INTOSAI's 50-year history—that was developed by a 10-nation task force chaired by the Comptroller General. This plan has provided the foundation for the Governing Board to engage member institutions in advancing professional audit standards and promoting knowledge sharing.

### *Collaborating with Others*

By collaborating with others, we have strengthened professional standards, provided technical assistance, leveraged resources, and developed best practices. In our work with INTOSAI, we chair the accounting and reporting committee, and we are an active member of INTOSAI's auditing standards, internal control and accounting standards, and other technical committees. We publish INTOSAI's quarterly *International Journal of Government Auditing* in five languages to foster global understanding of standards, best practices, and technical issues. To help ensure that the public sector's perspectives are reflected in the International Federation of Accountants Standards Development project, we are working as a member of INTOSAI's Professional Standards Committee as it collaborates closely with the International Auditing Assurance Standards Board and the World Bank to develop international auditing standards.

To build capacity in national audit offices around the world, we conduct an international audit fellows program for mid- to senior-level staff from other countries. In 2005, 20 audit fellows from Africa, Asia, Europe, Latin America, and the Middle East spent about 4 months at GAO learning how we are organized to do our work, how we plan our work, and what methodologies we use, particularly for performance audits. As part of our strategy to

promote continuous learning and sustainability once the fellows return to their countries, we are working with major donors—such as the World Bank and the U.S. Agency for International Development—to identify or support relevant capacity-building projects in fellows' institutions. Six current and seven former auditors general as well as several deputy auditors general, including the current chair of INTOSAI, are graduates of this program.

Other collaborative activities undertaken by our staff during 2005 included the following:

- Conferring with the Partnership for Public Service (Partnership), a nonprofit, nonpartisan public service organization committed to making the government an employer of choice for talented, dedicated Americans through educational outreach, research, legislative advocacy, and hands-on partnerships with agencies on workforce management issues. In late 2004, the Partnership merged with the Private Sector Council, another external partner organization dedicated to helping the federal government improve its efficiency, management, and productivity through the cooperative sharing of knowledge. During 2005, the Partnership has collaborated with us on a human capital symposium focused on performance

management best practices and assisted us on a number of engagements.

- Actively participating in four Domestic Working Group collaborative efforts of federal, state, and local audit officials to address issues regarding access to records, grants management, long-term fiscal challenges, and governance. Collaborative efforts with the Domestic Working Group and the National Association of State Auditors, Comptrollers, and Treasurers facilitated our work involving the states by fostering a cooperative working relationship with the state auditors on over a dozen engagements.
- Implementing the National Intergovernmental Audit Forum (Forum) strategic plan that was adopted in December 2004. This plan was developed by a task force composed of federal, state, and local auditors and an independent public accountant. The newly established committees have begun organizing to implement the plan, which seeks to maximize the Forum's effectiveness in promoting good government and accountability at all levels of government. In addition, 21 regional Forum meetings were held, which brought together auditors at all government levels.

### *Using Our Internal Experts*

We coordinated extensively within our own organization on our strategic and

annual performance planning efforts, as well as on the preparation of our performance and accountability reports. Our efforts are completed under the overall direction of the Comptroller General and the Chief Operating Officer. We relied on our Chief Administrative Officer/Chief Financial Officer and her staff to provide key information, such as the financial information that is included on [page 51](#) of this report. Her staff also coordinated with others throughout the agency to provide the information on goal 4's results (which appears in condensed form on [page 32](#) of this summary report), and provided input on other efforts dealing with issues that include financial management, budgetary resources, training, and security. We obtained input on all aspects of our strategic and annual performance planning and reporting efforts from each of our engagement teams and organizational units through their respective managing directors, as well as other staff responsible for planning or engagement activities in the teams. Staff from Quality and Continuous Improvement prepared the report, ensuring, among other things, that the report addressed comments and suggestions received from the Association of Government Accountants and other reviewers. In short, we involved virtually every part of GAO and used our internal expertise in our planning and reporting efforts.

# Addressing Management Challenges That Could Affect Our Performance

At GAO, management challenges are identified by the Comptroller General, the Executive Committee, and the agency's senior executives through the agency's strategic planning, management, and budgeting processes. Our progress in addressing the challenges is monitored through our annual performance and accountability process. Under strategic goal 4, we establish performance goals focused on each of our management challenges, track our progress in completing the key efforts for those performance goals quarterly, and report each year on our progress toward meeting the performance goals. Each year we ask our IG to examine management's assessment of the challenges and the agency's progress in addressing them. (See p. 68 for the IG's assessment.)

For fiscal year 2005, we continued to address three management challenges—human capital, information security, and physical security. We anticipate that we may need to continue to address these management challenges in future years because they are evolving and will require us to continuously identify ways to adapt and improve. We revisit the challenges each year and refine them when appropriate, and when we believe we have sufficiently addressed these challenges we will remove them from our list. We will report any changes as we monitor and report on our progress in addressing the challenges through our

annual performance and accountability process. The following sections describe our recent and planned efforts to address these challenges.

## *The Human Capital Challenge*

Given our role as a key provider of professional and objective information and analyses to the Congress, maintaining the right mix of technical knowledge and expertise as well as general analytical skills is vital to achieving our mission. We spend about 80 percent of our resources on our people, but without excellent human capital policies and management practices, we could run the risk of being unable to lead by example and meet the expectations of the Congress and the American people. Our ability to meet the needs of the nation could also be impaired if we do not receive the funding that we need to adequately staff the agency, invest to support our people, and reward our top performers—a mitigating external factor that we discuss below and on page 48.

To recruit, reward, and retain a highly qualified, high-performing, and diverse workforce remains one of our most important challenges. We employed a number of strategies to improve our recruitment efforts and support our workforce plan, including increasing the use of short-term and time-limited appointments and direct-hire authorities and implementing a pilot program for undergraduate cooperative educa-

tion program participants. We also developed our fiscal year 2006 recruitment strategy to more directly support the agency's workforce plan. The strategy includes enhancements or expansions of existing programs, such as the capability to offer internships in the fall and spring as well as the summer and using special teams to employ targeted recruiting for special skill sets, hard-to-fill positions, and diversity recruiting.

We continued to enhance our performance management and compensation systems through new and enhanced policies and processes. To improve our performance-based compensation system, with the help of a well-regarded consulting firm, we implemented a revised process for determining performance-based compensation that more directly links an individual's performance, as reflected by his or her appraisal, with his or her compensation. In June 2005, our administrative and professional support staff completed their first year under a broad-band pay system and a competency-based performance system. To ensure that these staff understood the new process and to foster staff acceptance, we employed an aggressive communication strategy that included meetings with staff as well as Web-based guides and questions and answers. To design a competitive, fair, and equitable compensation program aligned with competitive labor markets

in which we compete for talent, we worked with the same consulting firm to perform a market-based compensation study. Based on the results of the market-based compensation survey, we have invested significantly in restructuring our analyst and analyst-related specialist Band II pay band into two pay levels to better align individual staff with our institutional compensation policies. We expect many of these compensation system changes to be implemented in fiscal year 2006.

Finally, we continued providing our staff with courses and opportunities to develop their knowledge and expertise, build their competency, and strengthen their leadership skills. We designed and delivered 13 new competency-building courses and implemented an adjunct faculty program to increase the number of our subject matter experts available to develop content for new courses, expand the range of courses available, and provide training throughout the year. Among other efforts, we also established a group of analysts-in-charge representing various teams supporting goals 1 through 3 to discuss best practices related to managing engagements. To deliver required core courses to Band I analyst staff in field offices, we redistributed and realigned course delivery among three learning hubs rather than centralizing course delivery in headquarters. We estimate that this decision will result in a cost avoidance of

\$500,000 in travel and per diem, as well as other benefits, such as networking among and across teams, a sustained focus on learning, larger classes that make more effective use of adjunct faculty time, and the opportunity to strengthen matrixed work relationships through shared learning experiences.

While we have made progress in addressing the human capital challenge, more work remains to be done. Some of the largest efforts planned in this area for fiscal year 2006 include

- implementing the market-based compensation ranges for our analyst and analyst-related staff,
- determining the market-based compensation ranges for our administrative professional and support staff,
- implementing changes necessary to restructure our analyst Band II staff,
- continuing to strengthen our recruiting processes to better meet the needs of the agency and support our strategic goals,
- obtaining a better understanding of the retention factors affecting GAO, and
- identifying an appropriate methodology to successfully implement the Comptroller General's authority to determine the amount of annual pay adjustments.

### *The Information Security Challenge*

Information system security is a critical activity in ensuring our information system assets are safe and free from compromise. To address the increasing threats due to compromised information or information systems, we implemented a wide range of initiatives to strengthen and protect the security of our information systems and data.

We enhanced the security of our users' workstations by installing personal firewall software to prevent download of viruses, anti-spyware to identify and eliminate malicious programs, and automatic activation of the screensaver. We also locked the GAO intranet home page as the default home page to prevent spyware from hijacking the default home page and downloading more spyware.

In support of the requirements in the Federal Information Security Management Act, we completed remediation of several key weaknesses and vulnerabilities during fiscal year 2005. These included ensuring that risk assessments, system security plans, reviews performed under National Institute of Standards and Technology special publication 800-26, and letters for authorization to operate were in place and that system test and evaluation reviews and certifications and accreditations were developed and completed as necessary.

Finally, we continued to implement initiatives and improvements to our Disaster Recovery Program. Our most significant accomplishment was the completion of our vision of the Disaster Recovery Program/Continuity of Operations, which was approved and signed by the Comptroller General and the Chief Administrative Officer on May 31, 2005. In support of the program we also developed emergency preparedness training video material for headquarters staff and installed an emergency voice and text notification system on the network.

We anticipate that information security will continue to be one of our management challenges in the future. In fiscal year 2006, we will further address that challenge by completing implementation of centralized auditing of network servers and devices to better secure our computing assets within GAO, refining our network monitoring procedures to include the use of correlation products to automate the detection of potentially harmful threats to our network, implementing improvements to our disaster recovery operations, and improving our ability to respond and recover in the event of a disruption by implementing additional technologies to lessen our risks.

### *The Physical Security Challenge*

The challenge of providing a safe and secure work environment for employees remains a constant in light of

domestic and international events that can have a profound impact on the way we conduct business in the United States and around the world. Protecting our people and our assets is paramount to agency operations. In fiscal year 2005, we initiated actions to enhance our communication with external agencies, improve our internal communications and operations, and strengthen the technical and physical aspects of our emergency preparedness efforts.

Externally, we established or enhanced contacts and procedures with local agencies to enable us to receive detailed intelligence that would not necessarily be provided through normal communication channels and to ensure coordination with the legislative branch in case of emergency. For example, we established emergency notification procedures with the Federal Bureau of Investigation Joint Terrorism Task Force; enhanced relocation procedures and improved relations with the U.S. Capitol Police, the House Sergeant at Arms, and the Emergency Preparedness Office; and made arrangements with the District of Columbia government to receive up-to-date emergency notifications. We are also an active member of the Legislative Branch Continuity of Operations Plan Working Group, and we coordinated and participated in a legislative branch tabletop exercise involving a simulation of a crisis requiring the

House of Representatives to vacate and relocate elsewhere.

Internally, we took several steps to support our goal of providing a safe and secure work environment. To ensure that our staff know what to do in case of an emergency, we conducted our first shelter in place drill for headquarters, and distributed shelter in place plans for the majority of our field offices and an emergency preparedness brochure for all staff. To reduce the agency's security risk, we installed an electronic fingerprint system that improves the speed with which we can obtain screening through the Federal Bureau of Investigation, including immediate reports if prints are not acceptable.

To help ensure continued operations, we have completed initiatives in the areas of technical and physical security. We increased our network access potential by installing and reactivating

additional local area network ports. This will provide for efficient and effective use of space in the event that congressional staff need to relocate to our headquarters building in an emergency.

We plan to continue to assess our security operations to ensure our ability to meet ever-changing challenges to our security posture. In fiscal year 2006 we will be completing work on the Integrated Electronic Security System, which includes installation of turnstiles at headquarters, implementation of smart card technology, and upgrading access control and intrusion detection systems for headquarters and the field offices. Other efforts to meet this continuing challenge include procurement of an emergency notification system, and designing and disseminating a more robust security education and awareness program for headquarters and the field offices.

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## *Mitigating External Factors That Could Affect Our Performance*

Several external factors could affect the achievement of our performance goals, including the amount of resources we receive, shifts in the content and volume of our work, and various national and international developments. Limitations imposed on our work by other organizations or limitations on the ability of other federal agencies to make the improvements we recommend are additional factors that could affect the achievement of our goals.

The external factors that could have the most significant adverse affect on us are the constrained budget environment in which we currently work and the uncertain budget future we face. We are experiencing heavy demand from the Congress for work in a number of subject areas, especially in disaster recovery and preparedness in the aftermath of Hurricanes Katrina and Rita and in health care. Given the across-the-board funding reductions that the Congress is considering for fiscal year 2006, large current federal budget deficits, and the nation's long-range fiscal imbalance, the Congress is likely to place an increasing emphasis on fiscal constraint. While it is unclear how we will ultimately be affected, it is reasonable to assume that any attempt to exercise additional budgetary discipline in the legislative branch will include our agency. As a result, while we believe that we submit reasonable and responsible budget requests and we know that the return

on investment that we generate is unparalleled, we must plan and prepare for the possibility of significant and recurring constraints on the resources made available to us. In addition, because about 80 percent of our budget is composed of people-related costs, any serious budget situation will have an adverse impact on our human capital policies and practices and related investment practices. This, in turn, will have an adverse impact on our ability to serve the Congress and meet our performance targets. While, as we noted above, the nature and extent of any such budget constraints cannot be determined at the present time, our executive team is prudently engaged in a range of related planning activities that will help us to manage small reductions in our funding levels and still perform the high-quality work for the Congress that we are known for. We sincerely strive to lead by example, and are hopeful that our modest budget requests supported by our sound business case and proven performance results will encourage the Congress to provide additional resources to us and other high-performing entities. If the Congress employs such an approach, we should be in a good position to continue to provide a high rate of return on the resources invested in the agency. However, employing an across-the-board cut or other nontargeted approaches would greatly impede our ability to do our work and

may create perverse incentives for those agencies that are trying to model our priorities and practices.

A growing area for us also involves our work on bid protests. As required by law, General Counsel prepares Comptroller General procurement law decisions that resolve protests filed by disappointed bidders. These bidders challenge the way individual federal procurements are being conducted or how the contracts were awarded. In recent years, we have experienced an increase in the number of bid protests that have been filed. There is a possibility of a further increase if the executive branch undertakes a significant number of public or private competitions under OMB Circular A-76, particularly if statutory changes allow representatives of employees to protest when the private sector wins these competitions. We will continue to monitor our workload in this area to ensure that we meet our statutory responsibilities with minimal negative impact on our other work.

In addition to current and future budget constraints, another external factor is the extent to which we can obtain access to certain types of information. With concerns about operational security being unusually high at home and abroad, we may have more difficulty obtaining information in a timely manner and reporting on sensitive issues. Historically, our auditing and informa-

tion gathering have been limited whenever the intelligence community is involved. In addition, we have not had the authority to access or inspect records or other materials held by other countries or, generally, by the multinational institutions that the United States works with to protect its interests. Consequently, our ability to fully assess the progress being made in addressing national and homeland security issues may be hampered. Also, we anticipate that more of our reports may be subject to classification reviews than in the past, which means that the public dissemination of these products may be limited. We plan to work with the Congress to identify both legislative and nonlegislative opportunities for strengthening our access authority as necessary and appropriate.

As the Congress focuses on unpredictable events—such as natural disasters, possible public health pandemics, and the global threat posed by sophisticated terrorist networks—the mix of work we are asked to undertake may change, diverting our resources from some strategic objectives and performance goals. We can and do mitigate the impact of these events on the achievement of our goals in various ways. For example in fiscal year 2005, we

- stayed abreast of current events (such as the airline industry's financial crisis and gasoline prices)

and communicated frequently with our congressional clients in order to be alert to possibilities that could shift the Congress's priorities or trigger new priorities;

- quickly redirected our resources when appropriate (e.g., on the cost and recovery efforts related to Hurricane Katrina) so that we could deal with major changes as they occur;
- maintained broad-based staff expertise (e.g., in our Social Security, health care financing, and homeland security areas) so that we could readily address emerging needs; and

- initiated research under the Comptroller General's authority on a limited number of selected topics, such as U.S. tsunami detection and preparedness efforts, the status of Iraq's reconstruction, and our 21st century challenges and high-risk work.

Our ability to effectively manage the demands on our resources could have an impact on our ability to meet our performance targets. However, we will continue to manage the congressional requests we receive and the work we do under the Comptroller General's authority in order to minimize any negative impact it may have on our ability to meet the needs of the Congress and the American people.

# Managing Our Resources

## Resources Used to Achieve Our Fiscal Year 2005 Performance Goals

Our financial statements for fiscal year 2005 received an unqualified opinion from an independent auditor. The auditor found our internal controls to be effective—which means that no material weaknesses were identified—and the auditor reported substantial compliance with the requirements for financial systems in the Federal Financial Management Improvement Act of 1996. The auditor also found no instances of noncompliance with the laws or regulations in the areas tested.

Compared with the statements of large and complex agencies in the executive branch, our statements present a relatively simple picture of a small yet important agency in the legislative branch. We focus most of our financial activity on the execution of our congressionally approved budget with most of our resources devoted to the human capital needed for our mission of supporting the Congress with professional, objective, fact-based, non-partisan, nonideological, fair, and balanced information and analysis. Table 3 summarizes key data from the financial statements.

**Table 3: GAO's Financial Highlights: Resource Information (Dollars in millions)**

	Fiscal year 2005	Fiscal year 2004
<b>Total budgetary resources<sup>a</sup></b>	<b>\$493.8</b>	<b>\$487.5</b>
<b>Total outlays<sup>a</sup></b>	<b>\$478.7</b>	<b>\$469.0</b>
Net cost of operations		
Goal 1: Well-being and financial security of the American people	\$197.7	\$194.7
Goal 2: Changing security threats and challenges of globalization	144.2	131.7
Goal 3: Transforming the federal government's role	147.3	145.8
Goal 4: Maximizing the value of GAO	22.0	23.4
Less reimbursable services not attributable to goals	(5.4)	(5.5)
<b>Total net cost of operations<sup>a</sup></b>	<b>\$505.8</b>	<b>\$490.1</b>
Actual full-time equivalents	3,189	3,224

Source: GAO.

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

Our budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable audit work and rental income. For fiscal year 2005, our total budgetary resources increased by \$6.3 million from fiscal year 2004. This increase consists of funds needed to cover mandatory and uncontrollable costs and a onetime transfer of budgetary authority from DHS for a review of TSA's calendar year 2000 costs for screening passengers and property.

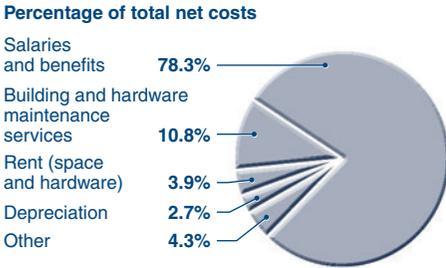
Our total assets were \$114.4 million, consisting mostly of property and equipment (including the headquarters building, land and improvements, and computer equipment and software) and funds with the U.S. Treasury. The largest dollar change in our assets was in the net value of property and equipment, which decreased in fiscal year 2005 as a result of normal depreciation amounts being greater than asset purchases. Total liabilities of \$94.9 million were composed largely of employees' accrued annual leave, amounts owed to other government agencies, accounts payable, and employees' salaries and benefits. The greatest changes in the liabilities were increases in intragovernmental accounts payable and capital lease liabilities. The increase in intragovernmental accounts payable relates to amounts due to GSA accrued at the end of the year. The increase in capital lease liability during fiscal year 2005 is primarily the result

of entering into new leases for the replacement of substantially all the notebook computers and copiers at GAO headquarters.

The net cost of operating GAO during fiscal year 2005 and fiscal year 2004 was approximately \$506 million and \$490 million, respectively. Expenses for salaries and related benefits accounted for 78 and 79 percent of our net cost of operations in fiscal years 2005 and 2004, respectively. [Figure 3](#) shows how our fiscal year 2005 costs break down by category.

We report net cost of operations according to our four strategic goals, consistent with our strategic plan. Goal 2 accounted for the greatest dollar increase in our net cost of operations from fiscal year 2004 through fiscal year 2005. The increase is due to the continued efforts in homeland security. Costs in goal 4 decreased in fiscal year 2005 as a result of several goal 4 key efforts being completed during fiscal year 2004, the first year of the 2-year strategic plan period. Examples include the implementation of the Travel Manager System completed in fiscal year 2004 as well as the development phase efforts for both the performance-based compensation system and the competency-based appraisal system.

**Figure 3: Use of Fiscal Year 2005 Funds by Category**



Source: GAO.

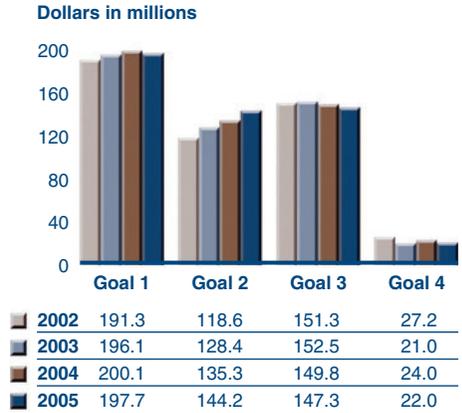
Figures 4 and 5 show our net costs by goal for fiscal year 2002 through fiscal year 2005. Figure 4 shows costs unadjusted for inflation, while figure 5 shows the same costs in 2005 dollars, that is, adjusted for inflation.

**Figure 4: Net Cost by Goal, Unadjusted for Inflation**



Source: GAO.

**Figure 5: Net Cost by Goal, Adjusted for Inflation**



Source: GAO.

*Audit Advisory Committee*

Assisting the Comptroller General in overseeing the effectiveness of GAO's financial operations is a three-member external Audit Advisory Committee. The committee's report for fiscal year 2005 appears after our financial statements and accompanying notes. Current members of the committee are

- Sheldon S. Cohen (Chairman), CPA and practicing attorney in Washington, D.C., former Commissioner and Chief Counsel of the Internal Revenue Service, and Senior Fellow of the National Academy of Public Administration.
- Edward J. Mazur, CPA, member of the Governmental Accounting Standards Board, former State

Comptroller of Virginia, and former Controller of the Office of Federal Financial Management in OMB.

- Charles O. Rossotti, Senior Advisor at The Carlyle Group; former Commissioner of Internal Revenue; and founder and former Chief Executive Officer and Chairman of American Management Systems, Inc., an international business and IT consulting firm.

### *Planned Resources to Achieve Our Fiscal Year 2006 Performance Goals*

GAO's resources include budget authority of \$490 million for fiscal year 2006 to maintain current operations for serving the Congress as outlined in our strategic plan and allow us to continue to enhance our productivity, and maintain the progress we have made in technology and other transformation areas. This funding level supports 3,217 full-time equivalent personnel. Our resources include \$483 million in direct appropriations and estimated revenue of \$7 million from reimbursable audit work and rental income. Our fiscal year 2006 resources represent a modest 3 percent increase over fiscal year 2005 resources—primarily to fund mandatory pay and uncontrollable costs. Following the catastrophic events of Hurricanes Katrina and Rita, the Congress is considering governmentwide across-the-board funding reductions that might reduce fiscal year 2006 spending levels, and this could

affect our resources. The nature and extent of any potential funding reduction is unknown.

Our resources support three broad program areas: human capital, mission operations, and critical infrastructure. We will also continue to address our major management challenges, which are human capital, information security, and physical security. For example, on the human capital front, to ensure our ability to attract and retain a highly qualified, high-performing, and diverse workforce, our fiscal year 2006 recruitment strategy enhances or expands existing programs for internships and professional development, and provides targeted recruiting for special skill sets and hard-to-fill positions, and to enhance the agency's diversity recruiting.

In fiscal year 2006, we plan to implement recommendations resulting from an assessment of our compensation system being conducted by a well-regarded consulting firm, to ensure that our compensation is fair and equitable and aligned with competitive labor markets.

On the information security front, to address the increasing threats due to compromised information or information systems, we will complete an audit of network servers and refine monitoring techniques. To extend our ability to securely access and transmit classified

data and information, we completed installation of security features in seven of our field offices and plan to continue installation at the remaining field offices in fiscal year 2006.

On the physical security front, we are working to enhance our communication with external agencies, improve our internal communications and operations, and strengthen the technical and physical aspects of our emergency preparedness efforts.



Source: See Image Sources.

January 2006

I am pleased to report that in fiscal year 2005 the U.S. Government Accountability Office continued to set the standard for excellence in government financial management. For the 19th consecutive year, independent auditors gave our financial statements an unqualified opinion with no material weaknesses and no major compliance problems. The financial statements that follow were prepared, audited, and made publicly available as an integral part of this performance and accountability report 45 days after the end of the fiscal year. In addition, for the fourth year in a row, the Association of Government Accountants awarded us a certificate of excellence in accountability reporting for our fiscal year 2004 annual performance and accountability report.

During fiscal year 2005 we continued to make strides toward our strategic goal of becoming a model federal agency and a world-class professional services organization. We are leading the way in performance management through new and enhanced policies and processes. With the help of a consultant, we analyzed and designed a competitive, fair, and equitable compensation program aligned with the labor markets in which GAO competes for talent. Further, we invested significantly in restructuring our analysts' and specialists' pay bands to better align compensation with responsibilities. In June, our administrative staff completed their first cycle under a similar competency-based system designed to establish a clear link between employee performance and GAO's mission, core values, and strategic goals and objectives. This system will enable fair, honest, and properly applied measures of performance based on standards that are reasonable, appropriate, and clear

to employees. Having a consistent competency-based performance management system throughout the agency will help to ensure that the work of all our staff is aligned with our core values and strategic direction.

We also performed an extensive review of agency operations during fiscal year 2005 for potential cost savings, outsourcing, streamlining, and other opportunities to increase operational efficiency and effectiveness, as the result of a mandate in House Report 108-577. We had previously decided to cease operations of our internal print plant as a result of a reduced demand for printed products. The closing of the print plant was completed in October 2004, and all our printing needs are now met through contracts. Another area affected by our streamlining efforts this fiscal year was our accounting branch within the Office of Financial Management. Aiming to focus our financial management staff on greater value-added input to GAO activities, we have begun to shift the efforts of our staff away from routine transaction processing and toward a greater role in strategic business decision analysis and support. This shift will occur through a combination of automation, reallocation of resources within GAO, and outsourcing some data entry functions. Last year's implementation of the Travel Manager system has enabled us to streamline the auditing of our travel vouchers and transfer the remaining efforts from financial management to field office staff, more efficiently using administrative resources available throughout the agency. We cross-serviced the accounts payable function to the Department of the Interior's National Business Center. This center performs invoice receipt, processing, and payment activities for a number of other agencies; by utilizing the center's services, we will realize savings through eliminating data entry positions and focusing the efforts of the remaining staff on higher end financial analysis and decision support.

To improve our operations through the use of new technology, we have embarked on an extensive effort to replace our current financial management system. Although our current system has served us well over the years, upgrades are no

longer offered and technical support has become increasingly difficult to find. We have adopted, and are following, best practice processes to select and implement our next generation financial management system. This is part of a larger enterprise architecture effort that will improve integration of all our systems that interact with our financial data. We also improved our internal communications by implementing a new system for electronic dissemination and storage of agency-wide communications, a new administrative services Web site, and a searchable administrative services directory.

Looking forward to fiscal year 2006, we realize that there are many challenges ahead. In addition to our work on the new financial system, we continue to voluntarily implement the additional requirements of OMB's revised Circular A-123, which requires management to specifically document, assess, and attest to the effectiveness of internal controls over financial reporting beginning in fiscal year 2006. In addition to these efforts, we will continue to investigate and implement new approaches to improve the efficiency and effectiveness of our preparation of quality products for our clients in the Congress and the American people.



Sallyanne Harper  
Chief Financial Officer

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# *Financial Management Accountability*

Our condensed financial statements begin on page 63. Our financial statements for the fiscal years ended September 30, 2005 and 2004, were audited by an independent auditor, Cotton & Co., LLP (see part III of our fiscal year 2005 performance and accountability report for our complete financial statements and the auditor's full report at <http://www.gao.gov/sp.html>).

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

## *Financial Systems and Internal Controls*

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

quality control program and seeks advice and evaluation from both internal and external sources.

We are committed to fulfilling the internal control objectives of 31 U.S.C. 3512, commonly referred to as the Federal Managers' Financial Integrity Act (Integrity Act). Although we are not subject to the act, we comply voluntarily with its requirements. Our internal controls are designed to provide reasonable assurance that obligations and costs are in compliance with applicable laws and regulations; funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and revenues and expenditures applicable to our operations are properly recorded and accounted for to enable our agency to prepare reliable financial reports and maintain accountability over our assets.

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

We assessed our internal controls as of September 30, 2005, based on the criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, we

believe that as of September 30, 2005, we have effective internal controls in place. Additionally, our independent auditor found that we maintained effective internal controls over financial reporting and compliance with laws and regulations. Consistent with our evaluation, the auditor found no material internal control weaknesses.

In addition, we are committed to fulfilling the objectives of the Improvement Act, which is also covered within 31 U.S.C. 3512. Although we are not subject to the act, we voluntarily comply with its requirements. We believe that we have implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *United States Government Standard General Ledger* at the transaction level as of September 30, 2005. We made this assessment based on criteria established under the Improvement Act and guidance issued by OMB. Also, our auditor reported that we had substantially complied with the applicable requirements of the Improvement Act as of September 30, 2005.

GAO's IG also conducts audits and investigations that are internally focused, functions as an independent fact-gathering adviser to the Comptroller General, and reviews all accomplishment reports totaling \$500 million or more. During fiscal year 2005, the

IG examined compliance with our policy and procedures for conflict-of-interest determinations, recruiting and hiring, performance evaluations, career advancement, professional development, continuing professional education, GAO's information security program and practices, the performance-based compensation process for analysts and attorneys, and benefits for transit and parking. In addition, the IG independently tests our compliance with procedures related to our performance data on a rotating basis over a 3-year period. No material weaknesses were reported by the IG. During fiscal year 2005, we completed actions related to 12 IG recommendations, none of which affected the financial statements. There are no unresolved issues.

### *Limitation on Financial Statements*

Responsibility for the integrity and objectivity of the financial information presented in the financial statements in this report rests with our managers. The statements were prepared to report our financial position and results of operations, consistent with the requirements of the Chief Financial Officers Act, as amended (31 U.S.C. 3515). The statements were prepared from our financial records in accordance with the formats prescribed in OMB Circular A-136, *Financial Reporting Requirements*. These financial statements differ from the financial

reports used to monitor and control our budgetary resources. However, both were prepared from the same financial records. Our financial statements should be read with the understanding that as an agency of a sovereign entity, the U.S. government, we cannot liquidate our liabilities (i.e., pay our bills) without legislation that provides resources to do so. Although future appropriations to fund these liabilities are likely and anticipated, they are not certain.

### *Purpose of Each Financial Statement*

The condensed financial statements present the following information:

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

# Independent Auditor's Report



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## INDEPENDENT AUDITOR'S REPORT

Cotton & Company LLP audited GAO's Balance Sheets as of September 30, 2005, and 2004, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the years then ended. In our report dated November 1, 2005, we stated that we found:

- The 2005 and 2004 financial statements referred to above are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- GAO maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2005,
- GAO's financial management systems substantially complied with applicable requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- No reportable noncompliance with laws and regulations tested.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly presented, in all material respects, in relation to the financial statements from which it has been derived.

We performed our audit and examinations in accordance with *Government Auditing Standards*, U.S. generally accepted auditing standards, American Institute of Certified Public Accountants' attestation standards, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

With respect to our opinion on internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected because of inherent limitations in internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

With respect to our opinion on GAO's financial management systems' compliance with FFMIA, our examination does not provide a legal determination of GAO's financial management systems compliance with specified requirements.

We are responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements. We did not test compliance with all laws and regulations applicable to GAO. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2005. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes. Our conclusion on compliance with laws and regulations is intended solely for the information and use of the management of GAO, OMB, and Congress and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

COTTON & COMPANY LLP

Charles Hayward, CPA

Alexandria, Virginia  
November 1, 2005

## U.S. Government Accountability Office

## Condensed Balance Sheets

As of September 30, 2005 and 2004

(Dollars in thousands)

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Intragovernmental assets including funds with the U.S. Treasury	\$66,755	\$68,670
Property and equipment, net	47,291	49,180
Other	310	382
<b>Total Assets</b>	<u>\$114,356</u>	<u>\$118,232</u>
<b>Liabilities</b>		
Intragovernmental liabilities	\$16,188	\$11,248
Accounts payable and salaries and benefits	28,614	27,784
Accrued annual leave and other	30,093	29,958
Workers' compensation	10,357	9,819
Capital leases	9,657	5,934
<b>Total Liabilities</b>	<u>94,909</u>	<u>84,743</u>
<b>Net Position</b>		
Unexpended appropriations	27,003	34,621
Cumulative results of operations	(7,556)	(1,132)
<b>Total Net Position</b>	<u>19,447</u>	<u>33,489</u>
<b>Total Liabilities and Net Position</b>	<u>\$114,356</u>	<u>\$118,232</u>

**U.S. Government Accountability Office**  
**Condensed Statements of Net Cost**  
**For Fiscal Years Ended September 30, 2005 and 2004**  
(Dollars in thousands)

	<u>2005</u>	<u>2004</u>
<b>Net Costs by Goal</b>		
Goal 1: Well-being/financial security of American people	\$197,730	\$194,731
Goal 2: Changing security threats/challenges of global interdependence	144,200	131,660
Goal 3: Transforming the federal government's role	147,318	145,761
Goal 4: Maximize the value of GAO	22,034	23,410
Less: reimbursable services not attributable to goals	<u>(5,432)</u>	<u>(5,493)</u>
<b>Net Cost of Operations</b>	<u><u>\$505,850</u></u>	<u><u>\$490,069</u></u>

**U.S. Government Accountability Office**  
**Condensed Statements of Changes in Net Position**  
**For Fiscal Years Ended September 30, 2005 and 2004**  
(Dollars in thousands)

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Balances, Beginning of Fiscal Year</b>	<u>(\$1,132)</u>	<u>\$34,621</u>	<u>\$2,338</u>	<u>\$40,327</u>
<b>Budgetary Financing Sources</b>				
Current year appropriations	-	467,205	-	457,606
Appropriations used	474,118	(474,118)	461,503	(461,503)
Other	-	(705)	-	(1,809)
<b>Other Financing Sources</b>				
Employee benefit costs imputed to GAO	25,309	-	25,884	-
Other	<u>(1)</u>	<u>-</u>	<u>(788)</u>	<u>-</u>
<b>Total Financing Sources</b>	499,426	(7,618)	486,599	(5,706)
<b>Net Cost of Operations</b>	<u>(505,850)</u>	<u>-</u>	<u>(490,069)</u>	<u>-</u>
<b>Balances, End of Fiscal Year</b>	<u><u>(\$7,556)</u></u>	<u><u>\$27,003</u></u>	<u><u>(\$1,132)</u></u>	<u><u>\$34,621</u></u>

**U.S. Government Accountability Office**  
**Condensed Statements of Budgetary Resources**  
**For Fiscal Years Ended September 30, 2005 and 2004**  
(Dollars in thousands)

	<u>2005</u>	<u>2004</u>
<b>Budgetary Resources</b>		
Current year appropriations	\$467,205	\$457,606
Transfers of budget authority	1,644	-
Unobligated appropriations, beginning of fiscal year	14,066	18,895
Reimbursements	10,892	11,021
<b>Total Budgetary Resources</b>	<u>\$493,807</u>	<u>\$487,522</u>
<b>Status of Budgetary Resources</b>		
Obligations incurred	\$480,378	\$471,647
Unobligated appropriations, end of fiscal year	11,080	14,066
Lapsed budget authority	2,349	1,809
<b>Total Status of Budgetary Resources</b>	<u>\$493,807</u>	<u>\$487,522</u>
<b>Relationship of Obligations to Outlays</b>		
Obligations incurred	\$480,378	\$471,647
Obligated balance, net - beginning of fiscal year	53,103	50,487
Less: Obligated balance, net - end of fiscal year	(54,798)	(53,103)
<b>Total Outlays</b>	<u>\$478,683</u>	<u>\$469,031</u>
<b>Outlays</b>		
Disbursements	\$478,683	\$469,031
Collections	(10,892)	(11,021)
<b>Net Outlays</b>	<u>\$467,791</u>	<u>\$458,010</u>

**U.S. Government Accountability Office**  
**Condensed Statements of Financing**  
**For Fiscal Years Ended September 30, 2005 and 2004**  
(Dollars in thousands)

	<u>2005</u>	<u>2004</u>
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations incurred	\$480,378	\$471,647
Less: Reimbursements	(10,892)	(11,021)
Net obligations	<u>469,486</u>	<u>460,626</u>
<b>Other Resources</b>		
Employee benefit costs imputed to GAO	25,309	25,884
Other	(1)	(788)
Net other resources used to finance activities	<u>25,308</u>	<u>25,096</u>
<b>Total resources used to finance activities</b>	<u>494,794</u>	<u>485,722</u>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Net decrease in unliquidated obligations	4,632	876
Costs capitalized on the balance sheet	(9,069)	(11,703)
Total resources used to finance items not part of the net cost of operations	<u>(4,437)</u>	<u>(10,827)</u>
<b>Total resources used to finance the net cost of operations</b>	<u>490,357</u>	<u>474,895</u>
<b>Components That Require/Generate Resources in Future Periods</b>		
Increase/(decrease) in workers' compensation, accrued annual leave, and other liabilities	732	(1,630)
<b>Costs That Do Not Require Resources</b>		
Depreciation	<u>14,761</u>	<u>16,804</u>
<b>Net Cost of Operations</b>	<u>\$505,850</u>	<u>\$490,069</u>

# From the Inspector General



## Memorandum

**Date:** October 31, 2005  
**To:** Comptroller General  
**From:** Inspector General – Frances Garcia *Francis*  
**Subject:** Management Challenges

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

In addition, we reviewed all fiscal year 2005 accomplishment reports claiming financial benefits of \$500 million or more and found that GAO has a reasonable basis for claiming these benefits. We are reviewing and discussing with management the following performance measures: timeliness, nonfinancial benefits, financial benefits under \$500 million, and multiyear qualitative goals.

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## *Providing Comments on This Report*

To provide comments for improving this report, please contact our Chief Quality Officer, who can be reached at (202) 512-6100, or at [qci@gao.gov](mailto:qci@gao.gov), or at the following address:

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