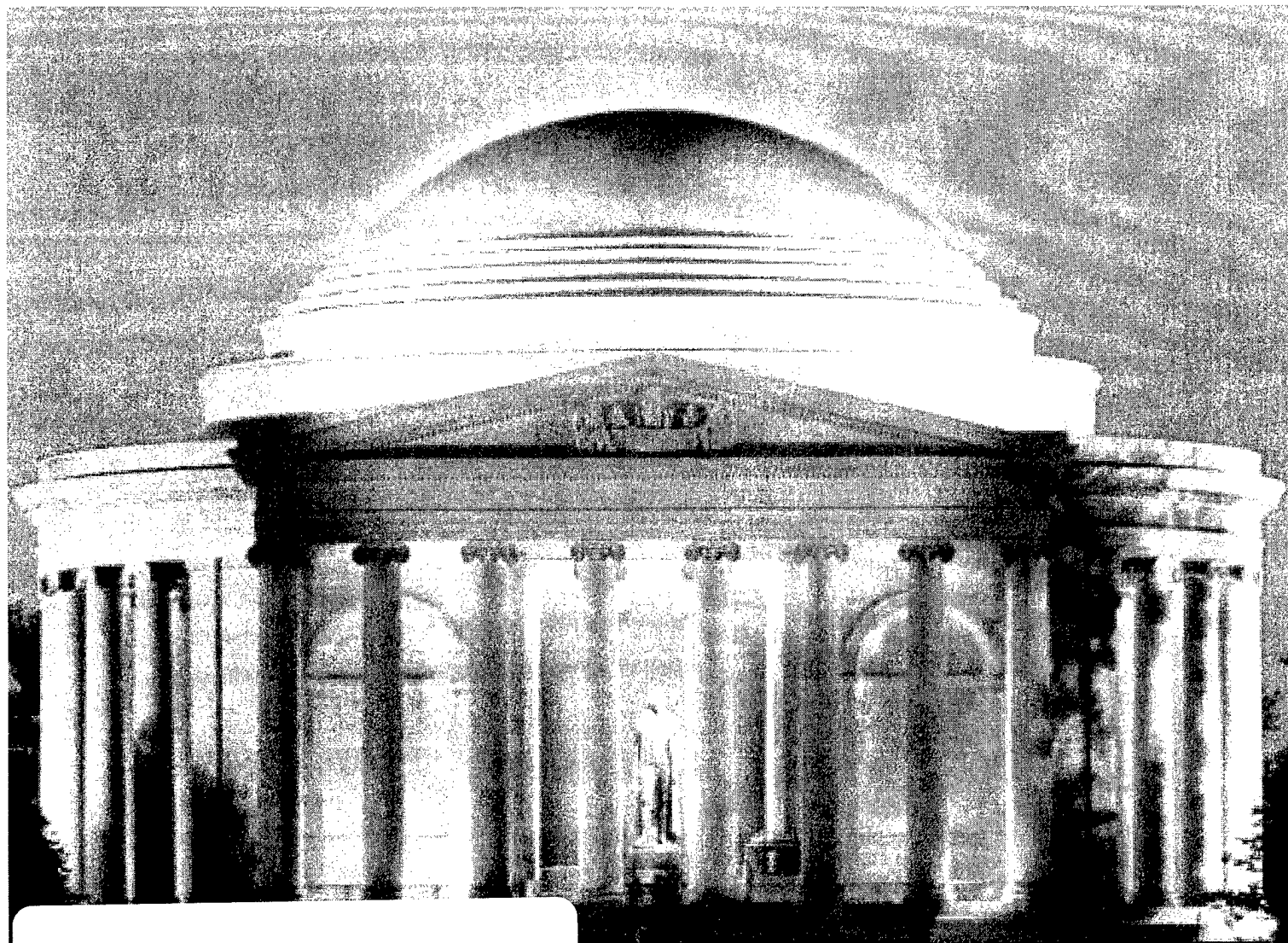


ACCOUNTABILITY

R E P O R T



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A MESSAGE FROM THE COMPTROLLER GENERAL



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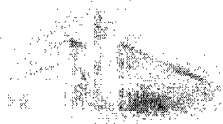
I am pleased to present the General Accounting Office's (GAO) Accountability Report for fiscal year 1999. This report discusses GAO's performance and accountability in serving Congress and the American people. It reviews GAO's accomplishments in meeting its mission and sustaining our core values of accountability, integrity, and reliability.

During fiscal year 1999, GAO achieved important results in helping Congress conduct its legislative, oversight, and other constitutional responsibilities on behalf of all Americans. This report highlights many of the important areas in which GAO helped Congress, ranging from improvements in the delivery of Americans' health care to national defense readiness, from increasing the safety of public transportation to strengthening the government's ability to fight crime and terrorism. GAO made substantial contributions to help Congress and the executive branch agencies improve government programs and services—through more than \$20 billion in direct financial benefits, more than 600 actions taken leading to improvements in government operations, and providing 229 testimonies requested by congressional committees. While many of GAO's contributions cannot be quantified in dollar terms, those that can be quantified show that GAO returned over \$57 for every \$1 appropriated to the agency in fiscal year 1999.

The long-term credibility of government rests on its ability to provide the nation's citizens the services they deserve. Yet at the dawn of the new millennium, the government's responsibilities and obligations appear more complex than ever. By striving to improve the performance of government and make the expenditure of tax dollars more transparent and accountable to the people and their elected representatives, GAO helps Congress make government a better institution and improve its credibility. This effort has been a long-standing

I think it an object of great importance...to simplify our system of finance, and to bring it within the comprehension of every member of Congress...The whole system [has been] involved in impenetrable fog. [T]here is a point...on which I should wish to keep my eye...a simplification of the form of accounts...so as to bring everything to a simple centre.

THOMAS PETERSON
APRIL 1862



A MESSAGE FROM THE COMPTROLLER GENERAL

challenge in America. For example, in 1802 then President Thomas Jefferson said, "I think it an object of great importance...to simplify our system of finance, and to bring it within the comprehension of every member of Congress...The whole system [has been] involved in impenetrable fog."

GAO prides itself on helping Congress to lift this fog. During fiscal year 1999, GAO assisted Congress in its efforts to strengthen the Social Security System, helped to meet the federal government's Year 2000 (Y2K) information technology challenge, and provided Congress with information on the long-term financial condition of the federal government. GAO also audited the federal government's annual financial statements, which are creating a greater focus on government performance and accountability. Overall, GAO was involved in evaluating programs and providing assistance for virtually the entire scope of the federal government's activities both domestically and around the world.

When I became Comptroller General, I committed GAO and myself to supporting Congress in meeting its constitutional responsibilities to help improve the performance and accountability of the federal government for the benefit of the American people. I have met with numerous Members of Congress on both sides of the aisle, and with dozens of congressional staff, to get their views on how GAO can better serve Congress. Moreover, through outreach to congressional committees, GAO's senior executives have continued to obtain clients' views about legislative goals and future objectives. As a result of these combined efforts, in fiscal year 1999 the agency embarked on several initiatives critical to supporting Congress and the nation in the future.

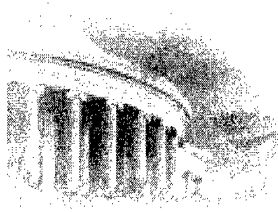


GAO began working with Congress' senior leadership to develop a set of congressional protocols to provide Congress with clearly defined and transparent policies and procedures for GAO's work. The protocols, which GAO pledged to consistently apply, will help the agency better serve Congress and improve client satisfaction by enabling GAO to more effectively allocate finite resources, ensure equitable treatment of all requesters of work, and hold GAO accountable for its performance. Also in

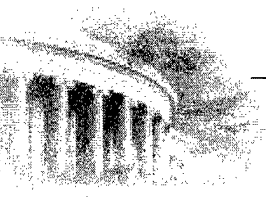
consultation with Congress, GAO embarked on its first Strategic Plan for the 21st century to set priorities, allocate resources, and guide the agency's work in support of the legislature's needs.

GAO's fiscal year 1999 Accountability Report takes the place of the annual report issued in previous years. The shift to an Accountability Report is part of GAO's overall effort, consistent with the Government Performance and Results Act (GPRA), to strengthen its performance and to hold itself accountable. GAO also will soon issue a Performance Plan for fiscal year 2001 to further improve its performance measurement efforts. As the nation's principal accountability institution, GAO will lead by example to ensure that the goals of GPRA and other management improvement efforts help to create a more effective and credible government for all Americans.



DAVID M. WALKER
COMPTROLLER GENERAL
OF THE UNITED STATES

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This section of the Accountability Report provides a high-level overview of GAO, explaining the agency's mission and core values and its performance in fiscal year 1999 and over a 4-year period. The section also presents, in brief format, information on GAO's fiscal year 1999 financial statements, the condition of its financial systems and internal controls, and its compliance with applicable laws and regulations. Finally, the section discusses GAO's Strategic Plan, 2000-2005, and the agency's overall efforts in developing, with congressional consultation, a strategic and annual planning process to strengthen performance and accountability consistent with its goal of serving Congress.

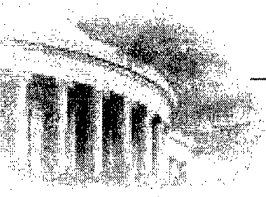
A mission statement is an organization's fundamental expression of its role and provides employees and clients a concise description of the reasons for the entity's existence. Last year, GAO refined its mission statement to better articulate its role and impart greater recognition of its principles and direction:

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

GAO is a legislative branch agency that supports Congress. The agency was created in 1921 as a result of the Budget and Accounting Act, a law designed to improve government financial controls and management. At the request of Congress, GAO investigates and evaluates the effectiveness and efficiency of federal policies and programs.

Over the years, Congress has expanded GAO's statutory authority to reflect the growing complexity of government and society. While GAO once examined individual receipts and disbursements of government agencies, the agency today examines federal programs, publishes thousands of requested reports and other documents, and provides a number of related services. By making recommendations to improve the practices and operations of government agencies, GAO contributes not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in the federal government.

Based on congressional requests and the agency's own research and development work, GAO supports legislative oversight by reviewing the performance of federal agencies, assisting in the oversight of agencies' operations, assessing federal policies and programs, analyzing financing for government activities, and anticipating emerging issues. GAO determines whether agencies can effectively plan and execute responsibilities, examines the adequacy of financial reporting systems and controls over



funds, assesses the effectiveness of service delivery (and the extent to which programs overlap or duplicate one another), reviews funding requests and opportunities to reduce or better target spending, and looks at national and international trends and challenges in order to anticipate their implications for public policies.

In order for GAO to successfully meet its mission, the agency has recognized the need to support and implement enduring core values and has established fundamental practices that guide its work and operations. GAO's service to Congress requires that the agency maintain its reputation for professionalism, objectivity, independence, accuracy, and responsiveness. No organizational reputation can long be maintained without adherence to core values and professional standards. Therefore, the Comptroller General, working closely with his senior leadership team, developed a set of core values to guide the agency and its employees and to enhance confidence among GAO's clients. GAO's core values are:

ACCOUNTABILITY describes the nature of GAO's work. GAO helps Congress oversee federal programs and operations to ensure their accountability to the American people.

INTEGRITY describes the high standards that GAO sets for itself in the conduct of its work. GAO takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all of its activities.

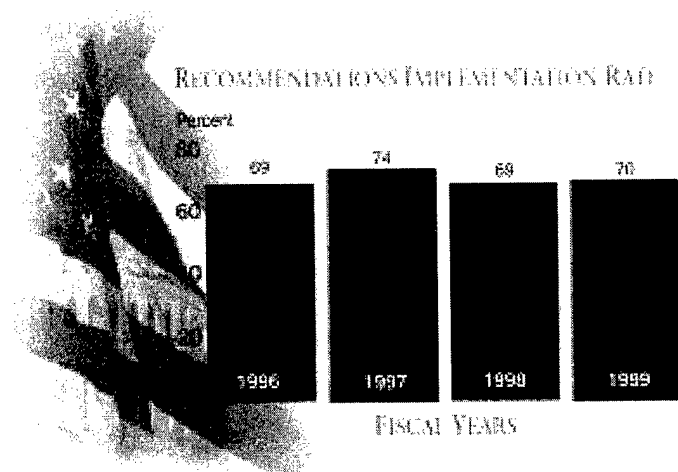
RELIABILITY describes GAO's goal for how its work is viewed by Congress and the American people. GAO seeks to ensure that its work is timely, accurate, useful, clear, and candid.

Along with its established core values, GAO recognizes the importance of maintaining a framework of professional standards for the agency's work and its products and services. These standards ensure that GAO's work will be produced according to professional criteria that stress accuracy, objectivity, and independence. A series of internal and external review mechanisms help to ensure that the agency conforms to the highest standards possible for the accountability field.

GAO is pleased with its performance in fiscal year 1999 and with the benefits of its work to improve the government's accountability and expenditure of tax dollars. GAO succeeds in its mission when its findings and recommendations lead to improvements wherever federal dollars are spent.

GAO has used selected measures to assess its progress in supporting Congress and in helping government to perform better. GAO's performance in many areas has improved steadily in fiscal year 1999 and during the past several years. This progress covers a variety of categories—for measures that specifically relate to federal government improvements and also for measures of GAO's productivity and support to Congress.

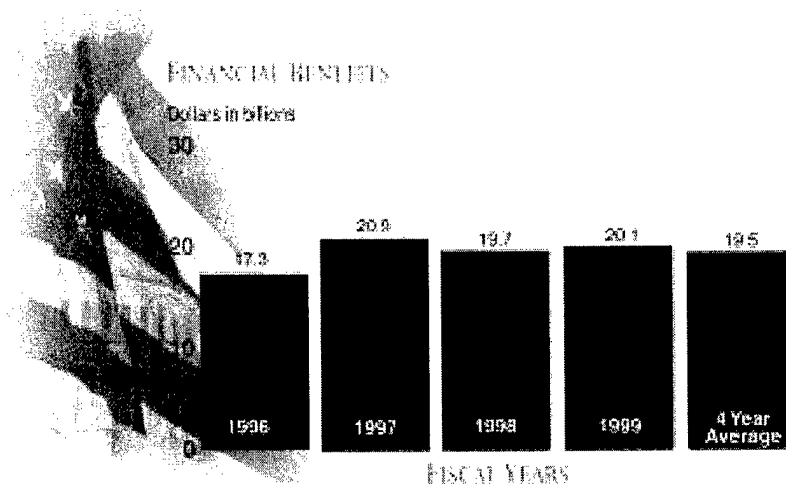
Many of GAO's audit findings and recommendations result in or contribute to performance improvements in a wide variety of government operations and services. Many findings and recommendations, as well as other information from GAO, lead to direct financial benefits that impact the bottom line in government budgets and federal expenditures. Numerous other recommendations lead to improvements in government operations. Although their impact cannot always be quantified in dollar terms, these improvements in government operations nevertheless provide tangible benefits to the agencies, Congress, and the American people.



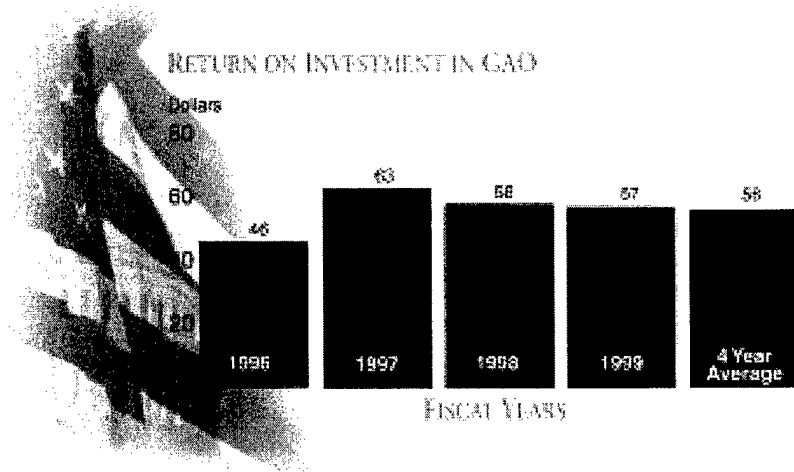
GAO documents accomplishments by measuring the corrective actions and program improvements made by government agencies in response to its audit findings and recommendations. Moreover, GAO's accomplishments help support the investigative, legislative, and oversight activities of Congress. Due to the nature of accountability work, benefits from GAO's findings, recommendations, and other activities typically take several years to become fully effective. Frequently, these benefits depend on the enactment of legislation and the cooperation and diligence of executive branch agencies. Therefore, in recording its fiscal year 1999 accomplishments, GAO is recognizing the impact of work completed in fiscal year 1999 and—in some cases—previous years. GAO has determined that by the end of fiscal year 1999, agencies had implemented 70 percent of the recommendations GAO made 4 years ago.

Financial Benefits

GAO's accomplishments in fiscal year 1999 led to numerous direct substantial and long-term financial benefits in government performance and budgetary savings. In fiscal year 1999, GAO's work provided the federal government \$20.1 billion in direct financial benefits, up from \$19.7 billion in fiscal year 1998. The dollar amount of these financial benefits is slightly higher than the average level of \$19.5 billion achieved over the last 4 years.



Moreover, these benefits represent a strong return on investment for the agency. In fiscal year 1999, GAO's return on investment was \$57 for every \$1 spent. During the last 4 years, GAO has helped achieve improvements to the government equivalent to \$56 for every \$1 that was appropriated to the agency.



Examples of the fiscal year 1999 financial benefits achieved by Congress and the executive branch as a result of GAO recommendations implemented over a number of years include greater returns on the sale of federal assets, savings from implementing more efficient services, improvements to the tax system, and decreased federal spending from reductions in future budget authority. It should be noted that, in some cases, the benefits recorded in fiscal year 1999 also accrued in previous years or were projected to occur in a future year. In such cases, GAO indicates those benefits. The following section highlights some of the major financial improvements that GAO has helped the government achieve through its findings and recommendations to Congress and executive branch agencies:

Greater Financial Returns on the Sale of Federal Assets

Natural Resources and the Environment

The federal government, on behalf of the nation, owns some 30 percent of the country's land surface and about 3 billion acres of the Outer Continental Shelf. The maintenance and management of these vast natural resources represent a continuous challenge. Receipts from the sale of timber and mineral rights or the use of publicly owned resources generated \$7.5 billion in fiscal year 1998. At the same time, the government also strives to be a responsible steward to the vast acreage of natural heritage lands cherished by millions of people who visit irreplaceable parks and sanctuaries each year. GAO has helped Congress to evaluate the trade-offs and other decisions associated with the nation's natural resources, including choices inherent in the programs and management of such agencies as the Bureau of Land Management, the Forest Service, and the Department of Energy (DOE), in an effort to improve their performance and effectiveness.

GAO's evaluations recently have helped Congress and DOE find ways to increase the profitability of oil sold from the federally owned Naval Petroleum Reserve at Elk Hills, California. GAO testified before Congress that the government would see a greater return from the sale of Elk Hills than from retaining ownership. GAO's suggestions for changes to the sale process were adopted by DOE, resulting in additional proceeds of over \$1.5 billion above the original sale price.

When the government recently sold the U.S. Enrichment Corporation, a wholly owned government corporation that enriches uranium, GAO recommended that the Department of the Treasury lead the privatization effort and determine the sale price. GAO also suggested specific actions designed to increase the sale price. Together, these recommendations resulted in the final price being about \$810 million more than originally estimated.

Savings From a More Efficient Government

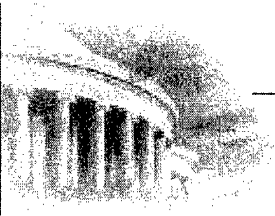
Veterans Affairs' Hospitals

In the mid-1990s, GAO testified that the Department of Veterans Affairs' (VA) hospitals—unlike private sector hospitals—did not screen patients to ensure that only those who needed hospital treatment were admitted. Once patients were admitted, VA did not ensure that they were discharged as soon as medically possible. In response to GAO's work, the Department established procedures for screening admissions and reviewing lengths of hospitalization. These changes contributed to a 25-percent decline in the number of hospital patients between 1996 and 1998, as well as a 14-percent decline in the average hospital stay. GAO's recommendations led to government savings of \$566 million for fiscal years 1998 and 1999.

Health Care

Health care has been one of the most rapidly rising elements of federal spending, growing at an average annual rate twice that of the rest of the federal budget over the past 20 years. Expenditures on health-related programs are now one of the largest components of the federal budget. Congress faces considerable challenges in making the nation's health care system more effective, better managed, and more accessible to Americans who lack medical care and insurance. GAO has worked with committees of Congress to examine a variety of health care-related issues—ranging from the solvency of trust funds to proposals for providing medical care for uninsured children, from fraud to government overpayments for medical care.

Congress recently enacted legislation based in part on GAO's recommendations to strengthen Medicare's safeguards against fraud and abuse. These improvements saved the Medicare program approximately \$2.2 billion over fiscal years 1998 and 1999. Similarly, GAO's recommendations included in Medicare program legislation will produce a gradual reduction, through fiscal year 2001, in the overly generous "adjustment factor" designed to compensate teaching hospitals for higher Medicare costs.



This legislative change is estimated to produce \$1.5 billion in savings for the program over fiscal years 1999 and 2000.

GAO's recommendations also helped the Health Care Financing Administration (HCFA) to prevent Medicare overpayments for surgical dressings—for an estimated savings of \$58 million for fiscal years 1998 and 1999.

Community and Economic Development

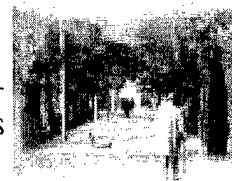
To help ensure vital communities, the federal government, through about 28 agencies and hundreds of programs, spends billions of dollars annually on grants, loans, and other types of assistance. Community and economic development is a multifaceted challenge involving state and local governments, nonprofit organizations, and private entities.

In 1998, Congress terminated the Department of Housing and Urban Development's (HUD) Low Income Housing Preservation Program. GAO had reported that the administration of this program limited HUD's ability to ensure that funds were being used wisely. Continuing the program would have cost some \$2 billion over a period of several years. As a result of GAO's work in this area, HUD saved \$936 million in fiscal years 1998 and 1999.

Improving the Tax System

Taxes

American taxpayers annually pay more than \$1.6 trillion in taxes to fund the federal government. As the nation's chief tax collector, the Internal Revenue Service (IRS) interacts with more Americans than any other government agency, and compliance with tax laws is a significant burden imposed on businesses and individuals. Congressional interest in reducing this burden through tax code reform remains high. GAO



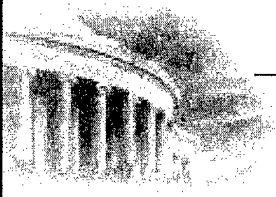
has assisted Congress in its oversight of tax administration and has worked with Congress to evaluate numerous tax proposals and analyze projections to assist the legislature in making decisions in the long-term fiscal interests of the country.

Based on GAO's evaluations, for instance, Congress changed the tax laws pertaining to the Earned Income Tax Credit. Specifically, the government avoided an estimated \$1.3 billion in payments for the 5-year period ending in fiscal year 2000 through changes to the wealth, capital gains, and passive income tests for the Earned Income Credit eligibility criteria. Similarly, as part of the Small Business Job Protection Act, Congress phased out tax credits to corporations for certain income earned in Puerto Rico and U.S. possessions. GAO's work on this issue contributed to an estimated \$1.3 billion in financial benefits for fiscal years 1996 through 2000.

Decreased Federal Spending From Reductions in Future Budget Authority

Community and Economic Development

As part of its on going work in housing issues, GAO has provided assistance to improve the accuracy of HUD's budget and resource estimates. GAO reported that HUD's method for estimating funding for its Section 8 housing assistance resulted in requests that vastly exceeded the agency's needs. Congress directed HUD to submit revised estimates, after which HUD's fiscal year 1998 budget was reduced by about \$1.3 billion in light of the streamlined projections. GAO's recommendations helped HUD avoid additional costs of about \$1.1 billion in fiscal year 1999. Congress also rescinded \$2.4 billion from HUD's fiscal year 1998 supplemental request. Based in part on these examples, GAO's audits and recommendations helped the government save an estimated \$5.3 billion in fiscal years 1998 and 1999.



Environmental Protection

Based on GAO's reports, the Environmental Protection Agency (EPA) realized \$115 million in fiscal year 1999 savings by changing its approach to deobligating and reusing unspent contract and assistance funds for Superfund, the federal program designed to identify and clean up hazardous waste sites.

National Security

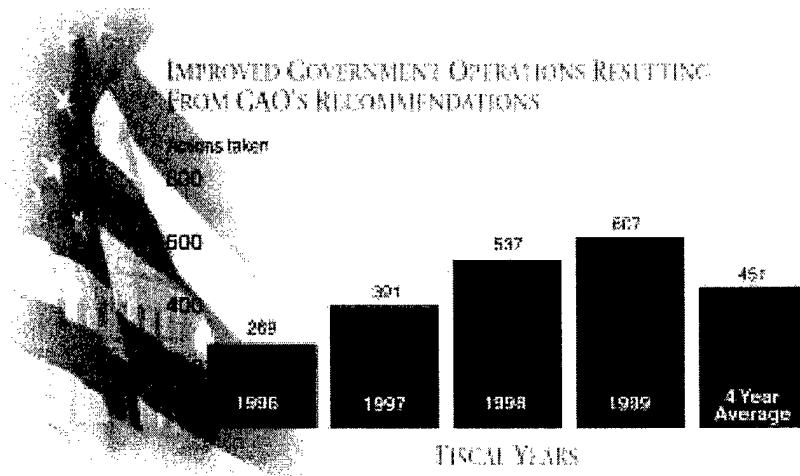
America's national security remains a priority for Congress, especially in a time when past resource constraints have raised questions about military readiness and new threats have evolved in various global hot spots. A considerable portion of GAO's resources goes to assisting Congress in its important duties of securing a strong defense. GAO examines the cost and effectiveness of major weapons systems, military personnel and recruitment issues, the readiness of forces to sustain multiple conflicts simultaneously, and the threats posed by weapons of mass destruction, as well as defense management and budgeting.

As part of its assistance to Congress in reviewing the fiscal year 1999 budget request for military personnel, GAO identified areas where the budget could be reduced. These included excess manpower costs due to over estimated military personnel levels, unnecessary advance pay, and funds not needed due to gains from changes in foreign currency exchange rates. As a result of GAO's work, Congress reduced the fiscal year 1999 military personnel budget for active and reserve forces by about \$609 million without compromising overall readiness.

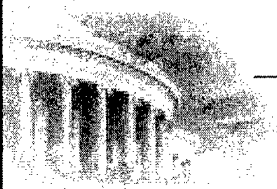


Improvements in Government Operations

In addition to the financial benefits resulting from GAO's work, the agency's efforts also contribute to numerous qualitative improvements in government operations and services. During fiscal year 1999, GAO contributed to 607 such benefits achieved by the government, a 13-percent increase over fiscal year 1998. Examples of the various types of benefits resulting from GAO's recommendations included better public safety and consumer protection, more efficient and effective government operations and services, Y2K readiness, and improvements to computer security.



Examples of GAO's contributions to improved government operations follow:



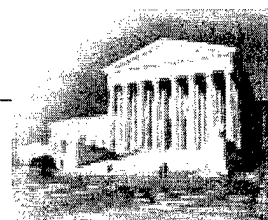
Better Public Safety and Consumer Protection

Health Care

The quality of and access to medical care for some of America's most vulnerable citizens continues to be of concern to Congress. The country's Medicaid patients, including many older Americans residing in nursing homes, have needed persistent attention from the federal government and the states. With the help of GAO, Congress has evaluated many nursing home-related issues. GAO's recommendations have helped Congress to create better protections for Medicaid patients and have helped to curb fraud, mismanagement, and other abuses of this important health care program.

For example, since 1998 GAO has issued a series of reports on Medicaid highlighting widespread inadequate health care quality in some of the nation's nursing homes. As part of its evaluation, GAO made a series of recommendations to HCFA for improvements to its nursing home survey process and for stronger enforcement in instances when nursing homes repeatedly violate regulations and do not correct deficiencies. As a result, HCFA developed a set of initiatives designed to improve patients' care and eliminate deficiencies. Based on GAO's work, HCFA now requires states to investigate serious complaints alleging harm to residents within 10 days, has proposed an expansion of its enforcement programs by subjecting homes with repeated serious deficiencies to immediate sanctions, and has revised the protocols that state surveyors use to inspect nursing homes to better focus the reviews.

GAO's reports have also convinced some states to improve their oversight of nursing homes. In response to GAO's findings that serious complaints of poor nursing home care frequently are not investigated for months, Maryland's legislature approved funding for a 57-percent increase in its surveyor staff, and the state agency revamped its processes to emphasize a faster review of serious complaints.

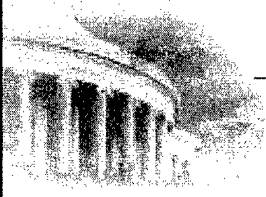


GAO has also contributed to improvements in children's health care. In recent years, Congress has been increasingly concerned with the care of children in federal health care programs and the significant incidence of preventable problems, such as lead poisoning. Children in low-income families who live in older housing with deteriorating lead-based paint are at high risk for lead poisoning, which impairs mental and physical development. GAO reported that children receiving health care from Medicaid or other federal programs are 5 times more likely to have elevated blood lead levels than children who are not in such programs. Despite federal policies providing for blood tests to detect lead poisoning, nearly two-thirds of children who are ages 1 to 5 and covered by federal health programs had not received them. In response to GAO's recommendations, in 1999 HCFA started requiring state Medicaid programs to collect information on the number of blood lead screening tests provided to young children under the Early and Periodic Screening, Diagnosis and Treatment program. Better information is expected to strengthen testing programs and thereby reduce lead-related illnesses in children.

Criminal Justice

Despite reduced crime rates in almost all categories in recent years, more Americans than ever are incarcerated in the U.S. prison system. Moreover, the nature of crimes, abetted by technology, has grown ever more sophisticated and complex. GAO has devoted many staff resources to helping Congress get better information on crime trends and areas of potential vulnerability in order to improve the government's ability to fight crime of all types. Some of GAO's work has had broad implications for the government's ability to prevent massive abuses of information systems that could be used to perpetrate fraud.

For instance, GAO has reported on the prevalence and costs of identity fraud, involving the illegal use of another person's identifying information (such as a name, date of birth, or Social Security number) to commit financial crimes. Illegal activities range



from the unauthorized use of a credit card to a comprehensive takeover of financial accounts. Largely in response to GAO's work, Congress enacted legislation that criminalized the theft and misuse of personal identifying information and provided legal recognition for the victims of fraud.

Environmental Protection

Safeguarding Americans' environment remains a critical priority for Congress. Landmark legislation passed in recent decades has contributed greatly to improvements and safeguards in the quality of the nation's land, water, and air. The development and administration of thousands of regulations, the enforcement of uniform standards, and the analysis of potential hazards have been among the areas GAO evaluates regularly.

One of several areas in which GAO has made a major contribution is Superfund. Since the early 1990s, GAO has reported significant weaknesses in the program, including the fact that EPA has not had the systems in place that would enable it to fund the worst sites first through a risk management prioritization process. Based on GAO's recommendations, EPA has begun to assess the risks at hundreds of potential Superfund sites that could contain contaminated drinking water and groundwater.

Transportation

More Americans than ever use public transportation and airlines to travel across the country and throughout the world. Moreover, the nation's commercial trucking system, the automotive industry, and rail networks have seen major changes in recent years. Congress has sought through legislation and oversight mechanisms to ensure that the various modes of transportation are safe, efficient, and economical. Truck safety, passenger car safety, airline maintenance and security, and the utilization and government subsidy of passenger rail have all been issues facing Congress in recent years. GAO has assisted committees in important assessments of transportation programs and policies and in examinations of alternatives.

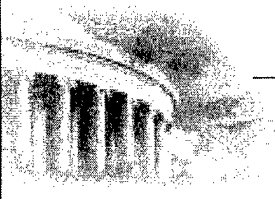
In one instance, GAO reported that the Federal Railroad Administration (FRA) had few regulations involving passenger car safety for Amtrak or commuter rail operations. As a result, inspectors provided little oversight of passenger car safety. GAO recommended that the agency establish appropriate criteria for the condition of safety control components on passenger cars. Addressing GAO's recommendation, FRA established, among other things, comprehensive structural safety standards for passenger equipment and created more stringent safety standards for high-speed passenger rail.

More Efficient and Effective Services and Operations

Safety Net for the Poor

The federal government maintains responsibility for ensuring that citizens facing circumstances of special need obtain assistance. Each year, the government spends nearly \$300 billion on programs designed to provide income support, health services, housing assistance, and food assistance to more than 30 million low-income Americans. GAO has helped Congress in its decision-making on virtually all safety net programs, including Medicaid, Disability Insurance, Food Stamps, Unemployment Insurance, child welfare programs, and Temporary Assistance for Needy Families.

One example of GAO's contribution to improving government performance and preventing fraud and waste is in the Supplemental Security Income (SSI) program—the nation's largest cash assistance program for the poor. GAO reported that the program's financial integrity is ineffective because the program has overpaid beneficiaries by more than \$3.3 billion. The magnitude of overpayments, and the Social Security Administration's (SSA) inability to recover outstanding SSI debt, led to the program's inclusion on GAO's high-risk list. Based on GAO's work, SSA is expanding its use of on-line data to better verify financial information about recipients and prevent future overpayments. SSA is also seeking statutory authority for additional tools to recover current overpayments.



Education

Despite the fact that the American education system is broadly decentralized, the federal government still plays a strong role in ensuring the quality of and access to education for the nation's children—the federal share of the dollar investment runs over \$20 billion annually. Additional federal investments go toward areas such as early childhood development and childcare, both critical components of productive educational opportunities.

GAO has helped Congress determine the effectiveness of federal investments in education and the benefits that could be derived from them. For instance, GAO determined that research on the Head Start child development program does not provide information on whether the program is making a difference in the lives of participants. GAO recommended to Congress and the Department of Health and Human Services (HHS) that the Department complete an assessment to help determine children's performance in such areas as cognitive skills, literacy, and gross motor skills.

Based on GAO's work, Congress passed legislation mandating that HHS conduct a National Head Start Impact Study to develop methods to measure the quality and effectiveness of the program and to assess its effectiveness during on-site reviews of local grantees. These and other actions should improve Head Start and lead to improved performance in school for the more than 800,000 children participating in this program.

Combating Terrorism

Americans are increasingly concerned about the threat of terrorism. To combat terrorism, more than 40 federal agencies will spend about \$10 billion in fiscal year 2000. Diplomatic security in embassies, airline security, and improvements in terrorist-related intelligence and surveillance are just some of the activities in which the government is engaged. GAO reported that federal programs to combat terrorism

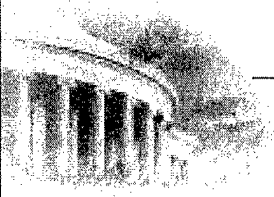
lacked a government wide focus needed to establish effective spending requirements and priorities. Because funds have not been applied based on threat and risk assessments, the government could not be sure that the highest-priority requirements were being met. Neither could it assure that terrorism-related activities and capabilities were not being duplicated or that funding gaps did not occur. In response, the Executive Branch improved its coordination of terrorism-related programs and priorities.

Defense Procurement

The Defense Department spends tens of billions of dollars annually on the procurement of weapons systems and other items to maintain national security. Indeed, funds for procurement are expected to increase. GAO remains very involved with congressional efforts to evaluate the costs and benefits of major weapons systems, readiness programs, and other efforts related to fielding advanced armed forces. GAO has reported to Congress hundreds of recommendations made to the Defense Department in recent years about ways to improve defense procurement and save tax dollars. GAO recently recommended that the Department withhold funds to cover the cost of correcting deficiencies when purchased items do not conform to specifications. GAO found, for example, that the Air Force, in conditionally accepting delivery of C-17 aircraft under two different contracts, had overpaid the prime contractor about \$61 million—according to the contractor's own cost estimates of the work remaining after delivery. Based on GAO's report, the Federal Acquisition Regulation was amended effective in November 1999 to provide the Defense Department authority to withhold such amounts.

Taxes

In recent years, Congress has been extremely concerned about efforts of the IRS to effectively but appropriately collect tax dollars due to the government from individuals and corporations. Committees of Congress have engaged in repeated investiga-



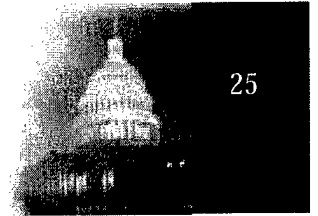
tions and oversight of the agency regarding alleged abuses of taxpayers, failures in computer modernization, and declines in audit rates.

GAO has assisted Congress with numerous reviews of these IRS issues. GAO's work was important to the efforts of the National Commission on Restructuring the IRS, which cited 70 GAO reports in its examination of the agency. The Commission made recommendations that led to the Restructuring and Reform Act of 1998, which has begun to effect change in IRS' internal management, in computer modernization, and in the treatment of taxpayers.

A high priority for IRS was to make short-term improvements in customer service to taxpayers to show progress and successes, while awaiting the results of longer-term modernization efforts. Because the successful implementation of these initiatives impacted on services to millions of Americans, GAO reviewed IRS' management strategy and made recommendations for improvement while the initiatives were still in the process of being implemented. IRS enacted GAO's recommendations for managing the customer service improvements in order to provide taxpayers with better services.

Improving Government Computer Security

Numerous government reports published over the last few years indicate that federal automated operations and electronic data are inadequately protected against computer misuse, disruption, and intrusion. These reports show that poor security program management is among the major underlying problems that can lead to programmatic failure. Congress has been extremely concerned about the government's ability to prevent intruders from accessing its extensive computer and information systems. As a result, over the past several years GAO has issued more than 80 reports on data and systems security, including hundreds of recommendations for correcting both individual weaknesses and the systemic causes of security problems. GAO's work has led to improvements in many agencies, including the development of entitywide security management practices.



Audits of Key Government Agencies

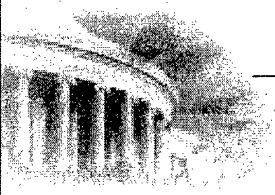
GAO routinely audits security controls at individual agencies. GAO typically conducts detailed information security evaluations at 6 to 8 agencies each year and works cooperatively with Inspectors General at numerous other agencies through the development of financial statement audits. These evaluations result in specific recommendations for improving security controls and management processes. For example, since 1993 GAO has identified numerous weaknesses at IRS and has continued to make related recommendations that have resulted in significant improvements to IRS' information security program.

Best Practices and Guidance

In addition to its reviews of individual agencies, GAO has developed techniques and practices that can be applied across the government. This work has led to significant contributions to agencies' developing and implementing sound security policies. The information security management practices were identified in a GAO executive guide and have been incorporated into policy guidance at many federal agencies. Additionally, GAO's *Federal Information System Controls Audit Manual* is now used by most major federal audit entities to evaluate computer-related controls.

Research and Development Work

GAO engages in a select amount of research and development work to ensure that the agency retains the capacity to meet the institutional needs of Congress over the long term. This investment has led to major contributions to the performance, stability, and accountability of the government and the protection of tax dollars. Some examples of GAO's R and D work that contributed in fiscal year 1999 to continuing improvements include the following:



Improving the Effectiveness of Government Operations and Services

Ensuring Y2K Readiness

Among the most important work that GAO has done are reviews related to the Year 2000 (Y2K) computing challenge. Although GAO's work on Y2K began through its R and D program, the vital importance of this issue is manifest in the many congressional requests for work that the agency received in fiscal years 1998 and 1999. In early 1997, GAO alerted Congress to the government's Y2K exposure. Throughout 1997, 1998, and 1999, GAO worked closely with Congress on Y2K issues. The Senate created the Special Committee on the Year 2000 Technology Problem and the House called on the Subcommittee on Government Management, Information, and Technology of the Committee on Government Reform and the Subcommittee on Technology of the Committee on Science to lead its Y2K monitoring efforts. These and other congressional committees examined the implications of Y2K on various government operations and in key economic sectors.

GAO produced a set of four guides to help organizations to confront the problem. GAO also issued over 160 reports detailing specific findings and made over 100 recommendations to agencies and to the President's Council on Year 2000 Conversion for improving the government's readiness. For example, GAO recommended that the President's Council on Year 2000 Conversion require agencies to develop contingency plans for all critical core business processes. Accordingly, the Office of Management and Budget (OMB) clarified its contingency plan instructions and, along with the Chief Information Officers Council, adopted GAO's business continuity and contingency planning guide for federal use, thus reducing the risks of disruption to major programs and services.

Public Safety and Consumer Protection

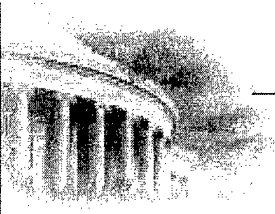
Nuclear Cleanup

In the early 1980s, GAO reported that ineffective safety oversight of DOE's nuclear facilities, as well as a legacy of massive environmental contamination created by decades of nuclear weapons production, posed considerable difficulties for the agency and the nation. GAO alerted Congress that the cleanup of facilities would cost over \$100 billion—an estimate that has now grown to about \$200 billion. Since then, GAO's work in this area has continued to help Congress better understand the magnitude of the cleanup problem. It has also spurred actions by the Department in cleaning up and closing down problem nuclear production sites, in implementing innovative cleanup technologies, and in educating the public about the dangers represented by the hundreds of millions of gallons of radioactive wastes stored in tanks susceptible to leakage.

Food Safety

For decades, Americans have relied on the government's inspection of beef, poultry, and other products to ensure food safety. Unfortunately, food inspection has not always kept pace with the technological change in the food production industry, as the rate of efficiencies in production increased and the effectiveness of some inspections declined. In recent years, several highly publicized food-borne illnesses raised awareness in Congress and among the public that the food supply was potentially vulnerable to problems.

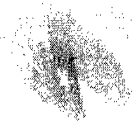
In 1991, GAO started a series of reviews that have highlighted fundamental weaknesses in government systems to ensure food safety. In the past few years, GAO pointed out that the poultry and meat inspection system, which had been designed around the turn of the century to protect against health threats from diseased animals, was no longer effective, hampered by inflexible legal requirements and outdated, labor-intensive inspection methods. GAO also reported that testing for



chemicals in food products could not detect or prevent contaminated food from entering the food supply. As a result of GAO's reports, federal food and agriculture agencies have adopted a new approach to food safety regulation that uses a scientific monitoring system and microbial testing for overall sanitary conditions.

Transportation

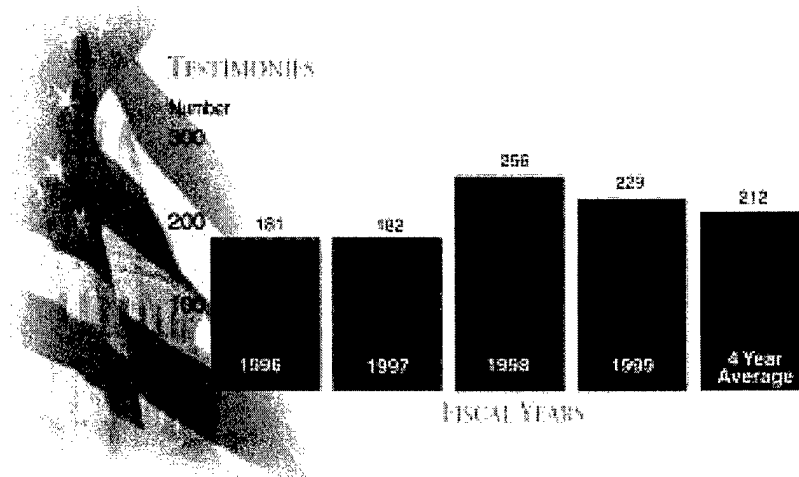
GAO has focused much attention on aviation safety and security, on issues ranging from air traffic control to aircraft maintenance to airport security. GAO has done so in part because of Congress' increasing oversight of the aviation industry's vast growth in recent years and because of the potential vulnerability of air traffic to security and maintenance problems. For instance, a GAO report in the wake of the ValuJet aircraft tragedy contributed to FAA's decision to increase oversight of new airlines. GAO's testimony on foreign aircraft repair stations was part of Congress' deliberations when it reviewed FAA's ability to certify and oversee these stations. GAO's recommendations led to recent legislation requiring new security measures and progress reports by FAA on efforts to improve aviation security.



Internal Performance Indicators

Because GAO does most of its work at the request of Congress, the agency uses a number of measures that express the provision of products and services to its congressional clients. For instance, GAO measures the number of testimonies given before congressional committees and the timeliness of its work. GAO has not traditionally measured the many types of informal assistance the agency provides to Congress, which account for much of the agency's work, but efforts are under way to develop new, appropriate measures to assess these services.

In fiscal year 1999, GAO produced 1,574 audit and evaluation products. GAO prepared 1,095 reports to Congress and agency officials, 182 formal congressional briefings, 229 congressional testimony statements, and 2,464 legal products.

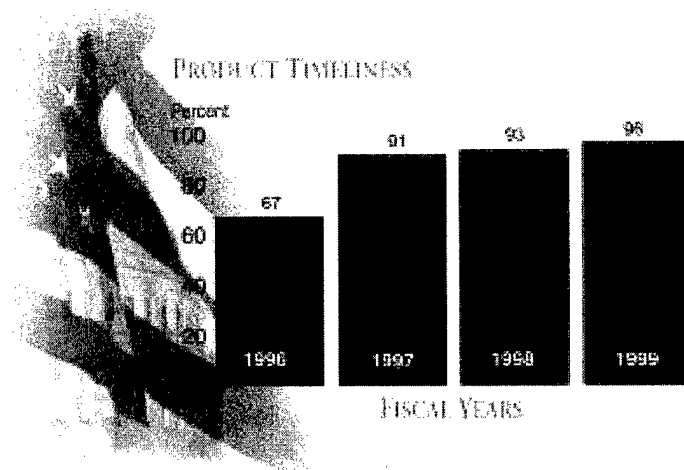


Examples of testimonies that have assisted Congress in its decision making and oversight responsibilities included statements on such important issues as the performance accountability and high-risk series depicting the federal government's major management challenges and program risks, Social Security reform proposals, financial and operational aspects of the International Monetary Fund, the Defense Department's anthrax vaccination program, and Medicare reform.

GAO recognizes that for its products to be most useful, they must be delivered when the clients require them. Timeliness is based on the dates GAO agreed to provide its products to the requesters. With 96 percent of all its products provided to Congress or federal agencies on time in fiscal year 1999, GAO improved on its record of 93 percent in fiscal year 1998.



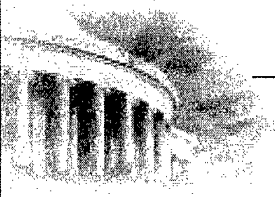
GAO is now developing changes to its performance management system to better support Congress and the agency's strategic planning. While certain measures of the work GAO provides Congress—testimonies and product timeliness—will always be important indicators of performance, the agency recognizes that additional measures are necessary to more effectively reflect how GAO benefits Congress and the public. In the future, GAO expects to set goals and measure its performance within its new Strategic Plan framework. GAO is developing mechanisms for setting goals and for capturing data to measure progress toward them. GAO expects that this new approach will help the agency to refine goals, manage resources, and track performance. GAO's Performance Plan for fiscal year 2001, as well as its Accountability Report for fiscal year 2000, will contain a broader range of performance data, including new qualitative measures, by which the agency will manage its operations and be held accountable by Congress.



GAO's headquarters operations are located in downtown Washington, D.C., at 441 G Street, Northwest, in a building placed on the National Register of Historic Places as a symbol of a new age in federal office design. It is across the street from the Pension Building (now the National Building Museum), which served as GAO's home prior to the construction of the GAO building in the late 1940s. The majority of GAO's approximately 3,200 employees are located at its headquarters building, with the remaining staff located in other offices throughout the United States.

To accomplish its responsibilities, GAO has five divisions focused on research, audit and evaluation and a number of smaller entities that support the divisions and the agency as a whole. GAO's programmatic organizations include the National Security and International Affairs; Health, Education, and Human Services; Resources, Community, and Economic Development; Accounting and Information Management; and General Government divisions. Offices of General Counsel, Special Investigations, Inspector General, Quality and Risk Management, Information Management and Communications, Congressional Relations, Public Affairs, and other mission support offices help support the agency to achieve its goals and objectives.

GAO—like any organization that seeks to be a model for others—cannot remain static in the face of strategic change and evolving client needs. GAO's Comptroller General has recently developed improvements to the agency's organization, including the adoption of formal core values for the agency, more effective matrix management techniques, a stronger emphasis on human capital, and an improved alignment of programmatic capabilities within the construct of the agency's new strategic plan. GAO recently announced a realignment of programmatic capabilities that, for fiscal year 2000 and beyond, will help to better serve Congress, maximize effective use of the agency's resources, and position the agency for the future.



MANAGEMENT'S DISCUSSION AND ANALYSIS
OVERVIEW OF FINANCIAL STATEMENTS

GAO's financial statements and footnotes and accompanying notes begin on pages 46. GAO's financial statements for the fiscal year that ended September 30, 1999, were audited by an independent auditor, Clifton Gunderson, L.L.C. The independent auditor rendered an unqualified opinion on GAO's principal statements and an unqualified opinion on the effectiveness of GAO's internal controls over financial reporting and compliance with laws and regulations. In the opinion of the independent auditor, the principal statements are presented fairly in all material respects.

GAO received fiscal year 1999 appropriations of \$354.3 million, up from \$339.5 million in fiscal year 1998. Appropriations, combined with other budgetary resources made available, totaled \$368.6 million in fiscal year 1999, while total outlays were \$359.5 million.

GAO's net cost of operations for fiscal year 1999 was \$390.3 million, an increase over fiscal year 1998's \$374.6 million. Costs for salaries and related benefits made up 75 percent of the agency's net cost of operations. Activities in the issue areas related to energy, agriculture, environment, housing, transportation, and natural resources, along with those related to justice, tax policy, financial institutions, and general management, were responsible for the majority of the increase. In future years, GAO plans to align its net cost of operations according to major strategic objectives, which is a more appropriate measure of cost consistent with its new strategic planning process.

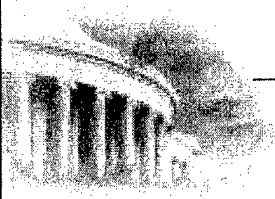


GAO recognizes the importance of strong financial systems and internal controls to ensure the agency's accountability, integrity, and reliability. To achieve a high level of quality, management maintains a quality control program and seeks advice and evaluation from both internal and external sources. Specifically, through the internal Quality Control Assessment Program and peer review activities, GAO obtains reasonable assurances that its audit and evaluation work conforms with all applicable professional requirements, including generally accepted government auditing standards.

Additionally, GAO's Inspector General (IG) conducts audits and investigations and functions as an independent fact-gathering and technical adviser to the Comptroller General. This year, as a result of IG recommendations, the agency has strengthened its policies and internal controls over the use of its telephone and Internet systems and improved management of its Workers' Compensation Program.

GAO also utilizes an Audit Advisory Committee, which assists the Comptroller General in overseeing the effectiveness of GAO's financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to GAO's operations. The Committee consists of the following three distinguished individuals:

- *Sheldon S. Cohen* (Chairman) is a 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.
- *Alan B. Levenson* is a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission.



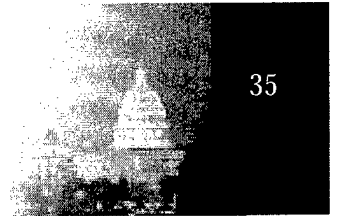
- *Katherine D. Ortega* is a CPA, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and a former member of the President's Advisory Committee on Small and Minority Business.

Financial Systems and Internal Controls

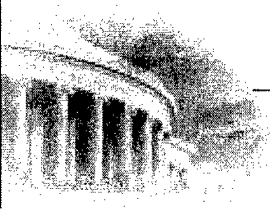
GAO is committed to fulfilling the internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Although GAO is not subject to FMFIA, it has voluntarily decided to comply with the act's requirements. GAO's internal controls are designed to provide reasonable assurance 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 GAO's operations are properly recorded and accounted for to enable the agency to prepare reliable accounts and financial reports and maintain accountability over its assets.

GAO's management assesses compliance with its controls through a series of comprehensive internal reviews, applying the evaluation criteria in OMB's guidance (Circular A-123, Management Accountability and Control) for implementing FMFIA. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken to correct deficiencies as they are identified.

GAO has assessed its internal controls as of September 30, 1999, based on the criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, GAO believes that it has effective internal controls in place as of September 30, 1999. Additionally, GAO's independent auditors have provided an unqualified opinion on GAO's internal controls over financial reporting and compliance with laws and regulations. Consistent with GAO's evaluation, the auditor found no material internal control weaknesses.



In addition, GAO is committed to fulfilling the objectives of the Federal Financial Management Improvement Act (FFMIA) of 1996. Although not subject to FFMIA, GAO has decided to voluntarily comply with its requirements. GAO believes that it has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard Ledger at the transaction level as of September 30, 1999, and for the fiscal year then ended. GAO made this assessment based upon criteria established under FFMIA and guidance issued by OMB and included in Appendix D of OMB Bulletin 98-08, Audit Requirements for Federal Financial Statements, as amended. Also, in its testing, GAO's auditors did not identify any instances of substantial noncompliance with FFMIA.



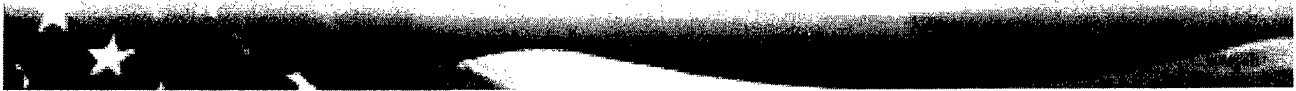
MANAGEMENT'S DISCUSSION AND ANALYSIS

STRATEGIC PLANNING PROCESS

GAO engaged in a strategic and annual planning process to effectively meet the needs of Congress, to organize resources to better reflect work priorities, and—consistent with the Government Performance and Results Act—to serve as a model for strategic planning in the federal government. This process started with congressional input and will end with congressional consultation through GAO's annual outreach effort to congressional committees. GAO's strategic and annual planning process involved extensive communication with congressional leaders, committees, members and staff.

Discussions with a variety of stakeholders helped GAO to articulate several important themes that, in the near future, are likely to help shape the federal government, American society, and the place of the United States in the world. The goals and objectives that constitute GAO's Strategic Plan derive in large measure from these key themes—all of which will impact congressional decision-making. In addition, the Comptroller General has articulated internal objectives for GAO to accomplish in order to better serve the needs of Congress and the nation. These themes, goals, and objectives together structure GAO's new Strategic Plan. The framework of the Strategic Plan is as follows:

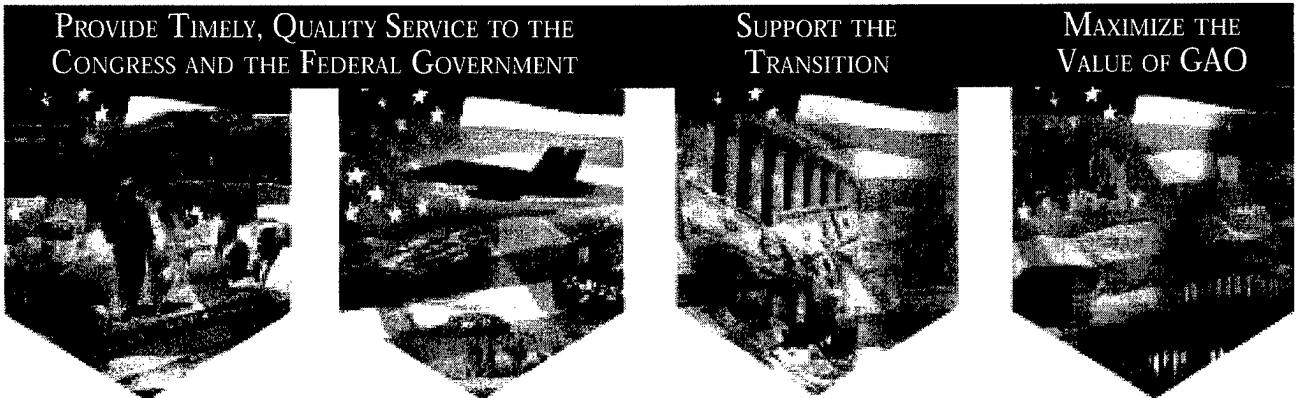
SERVING THE CONGRESS GAO'S STRATEGIC PLAN FRAMEWORK



MISSION

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

GOALS



PROVIDE TIMELY, QUALITY SERVICE TO THE CONGRESS AND THE FEDERAL GOVERNMENT

SUPPORT THE TRANSITION

MAXIMIZE THE VALUE OF GAO

TO ADDRESS CURRENT AND EMERGING CHALLENGES TO THE WELL-BEING AND FINANCIAL SECURITY OF THE AMERICAN PEOPLE

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

TO A MORE RESULTS-ORIENTED AND ACCOUNTABLE FEDERAL GOVERNMENT

BY BEING A MODEL ORGANIZATION FOR THE FEDERAL GOVERNMENT

THEMES



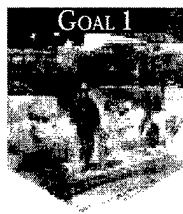
OBJECTIVES



CORE VALUES



GAO in fiscal year 1999 did not manage operations or determine performance through the Strategic Plan because it was under development. The agency's future performance and accountability initiatives will correspond to this new planning process. In order to help facilitate planning efforts and to establish an early baseline for measurement purposes, GAO's goals and some selected objectives are presented below, in accordance with the Strategic Plan framework.



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

GAO's first strategic goal focuses on several of the aspirations of the American people defined by the Founders: *"to establish justice...insure domestic tranquility...promote the general welfare, and secure the blessing of liberty to ourselves and our posterity..."* The country's aging and increasingly diverse population, rapid technological change, and Americans' desire to improve the quality of life all have major policy and budgetary implications for the federal government. In particular, growing commitments to the elderly will crowd out the capacity of a smaller generation of workers to finance the competing needs and wants brought to the federal doorstep.

Health care issues will remain a major focus for GAO's evaluation efforts. The Medicare Hospital Trust Fund has been operating in the red since 1992 and is projected to face bankruptcy by 2015. Despite a strong economy, the number of Americans without health insurance continues to increase, the \$18 billion Veterans Affairs health system has many obsolete facilities with excess capacity, and the size and requirements of the Department of Defense's health system are likely to require streamlining in the future. The changing nature of public health threats, including a resurgence of infectious diseases, requires new responses, while there also are questions about how



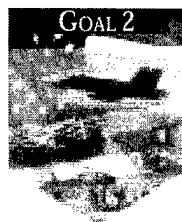
well current public health responses, such as drug abuse prevention and treatment programs, are working. As a result, GAO will continue to examine the health care needs of an aging and diverse population.

The fundamental issue of Americans' retirement income security is also expected to be a major part of GAO's work in the months ahead. Social Security has long served as the foundation of the nation's retirement income system. About 45 million people receive Social Security retirement benefits, and for nearly a sixth of the elderly, Social Security is the sole source of retirement income. Yet Social Security expenditures are expected to exceed payroll tax revenues beginning in 2014, with the trust fund being depleted by 2034. Also, tens of millions of U.S. workers have no pension coverage. Moreover, workers with pensions increasingly are being enrolled in new kinds of plans, defined contribution plans, which pose new challenges to workers, government regulators, and policymakers. GAO will help Congress to ensure a secure retirement for older Americans by, among other things, continuing to assess the implications of various Social Security reform proposals

Also of significance are the major social safety net programs. GAO will continue its commitments that support Congress' review of such major programs as Medicaid, Disability Insurance, Unemployment Insurance, Temporary Assistance for Needy Families, and Veterans' Benefits. Federal oversight of these programs is a challenge because of the numerous federal and state agencies that are involved, the wide variety of types of assistance (cash, services, etc.), the varying eligibility rules, and limited information on the efficiency and effectiveness of the programs. To address current issues, GAO will assess federal and state strategies for financing chronic and long-term health care and examine states' experiences in devising welfare systems and in providing health insurance to uninsured low-income children.

GAO anticipates that a number of education and workforce issues will require its attention during fiscal year 2000. Although an educated citizenry and a productive workforce are key to the continued vitality of our democratic society and the vigor of our economy, the federal government spends about \$80 billion a year on numerous education and worker training programs without always having a clear idea of the services provided or their impact. Furthermore, Americans remain concerned about the costs of college education, which have nearly doubled, in real terms, since the mid-1970s. Related to these matters, GAO expects to analyze the effectiveness and efficiency of early childhood care and education programs; identify options for federal, state, and local programs to effectively address demographic changes and infrastructure needs in educational systems; and identify opportunities to better manage education program costs and better target federal aid to the neediest students.

Other issues are of equal importance to Congress. GAO expects to continue its assistance in examining improvements to community and economic development, physical infrastructure, aviation security and air traffic modernization, and natural resources and environmental protection. GAO will also review agriculture programs in an effort to improve the effectiveness and productivity of the country's farmers. Part of GAO's work will include an evaluation of how farmers have changed their production strategies—relying less on federal subsidies and increasing their competitiveness.



PROVIDE TIMELY, QUALITY SERVICE TO THE CONGRESS AND THE FEDERAL GOVERNMENT TO RESPOND TO CHANGING THREATS TO NATIONAL SECURITY AND THE CHALLENGES OF GLOBAL INTERDEPENDENCE

As the world has grown more interconnected through open markets and technology, the United States faces threats to its national security and economy from new sources. Simultaneously, the federal government is trying to promote foreign policy goals, sound trade policies, and other strategies to help nations in every corner of the



world upon whom the United States now depends as military allies and trading partners. GAO expects to continue its role in supporting efforts by Congress and the executive branch to assess and respond to changing threats to national security and the challenges of global interdependence. These include regional conflicts and instability sparked by adverse economic conditions, corruption, ethnic hatreds, and nationalism. Furthermore, in connection with approaches outlined in GAO's third Strategic Plan goal, the agency will support the work of Congress to improve management of the Defense Department, the National Aeronautics and Space Administration, and the State Department and its related agencies.

In addition to more conventional military threats, the United States is confronting threats from terrorism, the proliferation of weapons of mass destruction, information warfare, and other diffuse threats that are more challenging to identify. GAO will help Congress to analyze the effectiveness of federal programs to combat terrorism, prevent the spread of weapons of mass destruction, and protect defense information systems.

Of course, the military capabilities and readiness of U.S. forces remain of critical concern to Congress, and GAO is prepared to continue to evaluate these issues, especially in light of increased defense spending. Issues of force structure, personnel development, readiness, weapons systems modernization, and the modernization of the nuclear weapons stockpile and facilities all require increased scrutiny in the coming years.

Congress has also signaled its intention to give more focus to advancing and protecting the nation's international interests. While U.S. leaders agree on the ultimate goals of promoting global peace, prosperity and stability, there remains disagreement about how to achieve them. The United States must continue to consider the importance and utility of military and humanitarian interventions around the world. The federal government is examining ways to assist countries that are transitioning to democracy and private market structures in the interest of stability. Military alliances require



continued support, and the nation's role in multilateral institutions, such as the United Nations, continues to engender conflicting approaches. Finally, the impact of global forces on U.S. economic and security interests remains a continuing concern, especially the effects of the globalization of the defense industry and the stability of the global financial and international trade system. GAO is likely to be called upon to examine all of these issues in the near future.



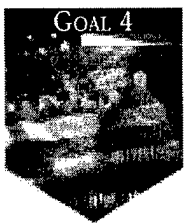
SUPPORT THE TRANSITION TO A MORE RESULTS-ORIENTED AND ACCOUNTABLE FEDERAL GOVERNMENT

American citizens are increasingly demanding improved government services and better stewardship of public resources. The federal government is adopting the principles of performance-based management in an effort to address these demands. This approach to managing government systematically integrates thinking about organizational structure; program and service delivery strategies; and the use of technology, reliable financial information, and effective human capital practices into decisions about the results the government intends to achieve. Many of the initiatives now under way across government to improve operations and strengthen accountability are being driven by management reforms statutorily established by Congress.

The reforms that have been adopted so far have profound implications for what government does, how it is organized, and how it performs in its services to the country and its citizens. Consequently, government decisionmakers and managers are adopting new ways of thinking, considering different ways of achieving goals, and using new information to guide decisions. At the same time, with budget surpluses now being projected for the coming years, the U.S. government faces a new set of challenges, in both the near and long terms, in making budget decisions.



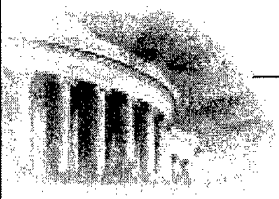
GAO expects to analyze the nation's fiscal health; to help Congress in strengthening approaches for financing the government and determining accountability for the use of tax dollars; to facilitate governmentwide management and institutional reforms needed to build and sustain high-performance government organizations; and to recommend improvements in federal agency programs.



MAXIMIZE THE VALUE OF GAO BY BEING A MODEL ORGANIZATION FOR THE FEDERAL GOVERNMENT

Besides supporting Congress directly through improving government performance and accountability, GAO also supports Congress by making improvements to the agency's products and processes. To successfully carry out its responsibilities to Congress and the American people, GAO first and foremost must be perceived as credible and must lead by example. In conjunction with the agency's mission and core values, GAO must, among other things, be nonpartisan, non-ideological, fact-based, and accurate in all of its audit and evaluation work. The internal focus of Goal 4 is providing a framework for enhancing GAO's effectiveness and helping to improve performance and accountability throughout the agency.

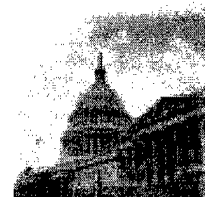
Congress, increasingly faced with myriad complex and sensitive issues that confront the nation, relies on GAO for information and analysis to inform policy decisions and to improve federal government operations. With congressional demand exceeding available resources, GAO must work with congressional clients to help them effectively utilize the agency's resources. To that end, GAO has worked with congressional leaders to develop a set of clearly defined, transparent protocols to guide the development of GAO's work for Congress. GAO must also ensure that it can carry out a clearly developed strategic and annual planning process, which will drive organiza-



tional management, alignment, and resource allocation decisions and stand as a model for agencies complying with the Government Performance and Results Act.

Importantly, GAO's organizational credibility has depended on a highly talented and multidisciplinary workforce. To maintain that credibility in today's complex and dynamic environment, GAO must reassess the experience, skills, and focus of staff resources. This will serve to maximize the value and impact of services the agency provides Congress. Strengthening workforce capacity will be particularly critical for GAO in the next several years in order to position the agency for the future after a 39 percent reduction in force since 1992. Moreover, GAO's current human capital profile presents issues in terms of structure, succession planning, and skill levels that needed to be addressed. GAO needs to devote more attention to filling many entry-level gaps and also focus on succession planning, since nearly 55 percent of the agency's senior executives will be eligible to retire by the end of fiscal 2004. As one element of its strategic planning effort, GAO will begin restructuring its organization through an agency realignment, normal attrition, increased entry level recruitment, and enhanced efforts to enrich training programs to maximize productivity and effectiveness. GAO has focused on redesigning its performance appraisal system and is working to reshape its succession-planning program. GAO also is taking steps to design and implement a state of the art performance management system that is linked to the strategic plan and the agency's core values.

GAO also must focus on ensuring efficient, responsive business practices. Congress is inundated from numerous sources with information and analyses to influence congressional decisionmaking on critical policy issues and efforts to improve federal government operations. What often sets GAO apart from these other sources is the ability to turn assertions and information into facts and knowledge through original data collection, objective analysis, and independent and integrated reporting across a broad spectrum of issues. The continued credibility of GAO's work, products, and other services depends on internal business processes that are efficient and responsive to work teams and that reflect risk-based management principles, products and stan-



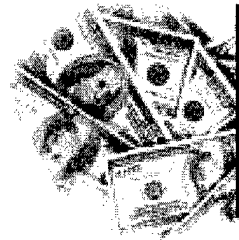
standards. GAO must also take advantage of opportunities for greater efficiency and responsiveness through an examination of its product mix and job processes. Finally, for GAO to become a model of organizational efficiency, effectiveness, and accountability in the federal government, the agency must be able to maximize the benefits of an integrated information technology infrastructure. GAO has made great strides in introducing such technology into the organization and in the future will further strengthen its systems infrastructure to more effectively support its strategic goals and objectives.



PRINCIPAL STATEMENTS
U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1999 AND 1998

<i>Dollars in Thousands</i>	<i>1999</i>	<i>1998</i>
Assets		
Entity Assets		
Intragovernmental		
Funds with the U.S. Treasury	\$53,343	\$57,798
Accounts receivable	1,222	1,692
Accounts receivable	24	23
Supplies	358	376
Property and equipment, net	62,617	64,611
Total entity assets	117,564	124,500
Total Assets	\$117,564	\$124,500
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts payable	\$5,909	\$1,458
Salaries and benefits	2,292	2,287
Salaries and benefits	13,982	12,384
Employee travel	657	837
Accounts payable	7,986	9,767
Other liabilities	986	—
Total liabilities covered by budgetary resources	31,812	26,733
Liabilities Not Covered by Budgetary Resources		
Accrued annual leave	26,334	26,029
Workers' compensation	10,150	10,236
Comptrollers General retirement plan	2,492	2,496
Capital leases	6,671	2,295
Total liabilities not covered by budgetary resources	45,647	41,056
Total Liabilities	\$77,459	\$67,789
Net Position		
Unexpended appropriations	\$22,777	\$32,780
Cumulative results of operations	17,328	23,931
Total net position	40,105	56,711
Total Liabilities and Net Position	\$117,564	\$124,500

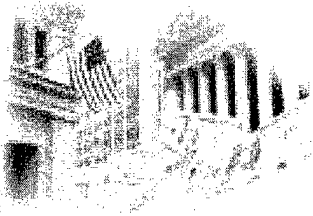
The accompanying notes are an integral part of these statements.



U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF NET COST
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 1999 AND 1998

<i>Dollars in Thousands</i>	<i>1999</i>	<i>1998</i>
Net Costs by Program Area		
National Defense, Security and International Relations, and Other Related Issues	\$84,942	\$83,801
Less reimbursable services	—	—
Net program cost	84,942	83,801
Financial Audits, Systems, Information Management and Technology Issues	84,617	84,156
Less reimbursable services	(997)	(1,803)
Net program cost	83,620	82,353
Energy, Agriculture, Environment, Housing, Transportation, and Natural Resources Issues	73,815	69,210
Less reimbursable services	—	(48)
Net program cost	73,815	69,162
Justice, Tax Policy, Financial Institutions, and General Management Issues	57,718	53,680
Less reimbursable services	(6)	(118)
Net program cost	57,712	53,562
Education and Employment, Health Care and Income Security Issues	55,148	53,460
Less reimbursable services	(33)	(207)
Net program cost	55,115	53,253
Legal Services	24,461	23,381
Less reimbursable services	—	—
Net program cost	24,461	23,381
Special Investigations and Investigative Support	6,288	5,425
Less reimbursable services	—	—
Net program cost	6,288	5,425
Senior management and staff	4,778	4,034
Less reimbursable services not attributable to programs	(456)	(380)
Net Cost of Operations	\$390,275	\$374,591

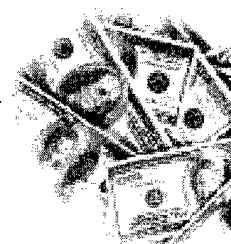
The accompanying notes are an integral part of these statements.



PRINCIPAL STATEMENTS
U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF CHANGES IN NET POSITION
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 1999 AND 1998

<i>Dollars in Thousands</i>	<i>1999</i>	<i>1998</i>
Net Cost of Operations	<u>\$390,275</u>	<u>\$374,591</u>
Financing Sources (other than reimbursable services)		
Appropriations used	365,009	349,359
Federal employees retirement benefit costs paid by OPM and imputed to GAO	19,839	20,188
Other costs imputed to GAO	—	237
Intragovernmental transfer of property and equipment	<u>(1,176)</u>	<u>(15)</u>
Total Financing Sources	<u>383,672</u>	<u>369,769</u>
Net Results of Operations	(6,603)	(4,822)
Net Decrease in Unexpended Appropriations	<u>(10,003)</u>	<u>(4,879)</u>
Change in Net Position	(16,606)	(9,701)
Net Position - Beginning of Fiscal Year	56,711	66,412
Net Position - End of Fiscal Year	<u>\$40,105</u>	<u>\$56,711</u>

The accompanying notes are an integral part of these statements.



U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF BUDGETARY RESOURCES
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 1999 AND 1998

<i>Dollars in Thousands</i>	<i>1999</i>	<i>1998</i>
Budgetary Resources Made Available		
Current year appropriations	\$354,268	\$339,499
Transfers of budget authority, net	1,000	5,169
Unobligated appropriations, beginning of fiscal year	2,166	15,874
Reimbursable services	1,492	2,556
Cost sharing and pass-through CPA contract reimbursements	9,669	9,438
Total Budgetary Resources Made Available	\$368,595	\$372,536
Status of Budgetary Resources		
Obligations incurred	\$363,856	\$370,182
Unobligated appropriations, end of fiscal year	4,477	2,166
Lapsed budget authority	262	188
Total Status of Budgetary Resources	\$368,595	\$372,536
Outlays		
Obligations incurred	\$363,856	\$370,182
Less: Reimbursable services	(1,492)	(2,556)
Cost sharing and pass-through CPA contract reimbursements	(9,669)	(9,438)
Obligated balance, net - beginning of fiscal year	55,632	47,129
Less: Obligated balance, net - end of fiscal year	(48,866)	(55,632)
Total Outlays	\$359,461	\$349,685

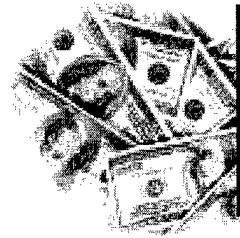
The accompanying notes are an integral part of these statements.



PRINCIPAL STATEMENTS
U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF FINANCING
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 1999 AND 1998

<i>Dollars in Thousands</i>	<i>1999</i>	<i>1998</i>
Obligations and Nonbudgetary Resources		
Obligations incurred	\$363,856	\$370,182
Less: Reimbursable services	(1,492)	(2,556)
Cost sharing and pass-through CPA contract reimbursements	(9,669)	(9,438)
Financing imputed from OPM for federal employees benefit cost subsidies	19,839	20,188
Other imputed financing	—	237
Intragovernmental transfer of property and equipment	(1,176)	(15)
Total obligations as adjusted, and nonbudgetary resources	<u>371,358</u>	<u>378,598</u>
Resources That Do Not Fund Net Cost of Operations		
Net (increase) decrease in unliquidated obligations	12,314	(8,829)
Costs capitalized on the balance sheet	(8,425)	(8,357)
Expenses to be funded by future appropriations (Appropriations provided to reduce unfunded liabilities)	215	(763)
Total resources that do not fund net cost of operations	<u>4,104</u>	<u>(17,949)</u>
Costs That Do Not Require Resources		
Depreciation	14,813	13,942
Net Cost of Operations	<u>\$390,275</u>	<u>\$374,591</u>

The accompanying notes are an integral part of these statements.



Note 1. Summary of Significant Accounting Policies

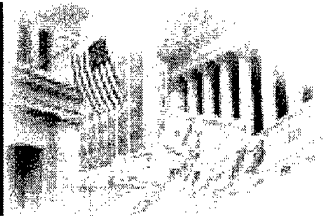
Reporting Entity

The accompanying principal statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. The principal statements, except for federal employee benefit costs paid by the Office of Personnel Management (OPM) and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as interest on the federal debt, which may in part be attributable to GAO; they also do not include activity related to GAO's trust function described in Note 10.

Basis of Accounting

Under the authority of the Chief Financial Officers Act of 1990, GAO participated with the Office of Management and Budget (OMB) and the Department of the Treasury in the establishment of the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, OMB, and Treasury. The Comptroller General, the Director of OMB, and the Secretary of the Treasury (the three principals of FASAB) decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are concurrently issued by GAO and OMB. GAO prepared its principal statements based upon the following hierarchy of accounting principles and standards:

- the accounting principles, standards, and requirements approved by the three principals and issued by GAO and OMB;



- interpretations related to the standards issued by OMB in accordance with OMB Circular A-134, Financial Accounting Principles and Standards; and
- form and content requirements for financial statements included in OMB Bulletin 97-01 (Form and Content of Agency Financial Statements), as amended.

These principles differ from budgetary reporting principles. The differences relate principally to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities in the accompanying principal statements. Also, for purposes of the principal statements, budgetary appropriations are realized as a financing source when goods and services are received or benefits are provided.

Basis of Presentation

GAO's 1999 principal statements have been prepared in accordance with the requirements of federal accounting standards and OMB Bulletin 97-01, as amended.

Funds With the U.S. Treasury

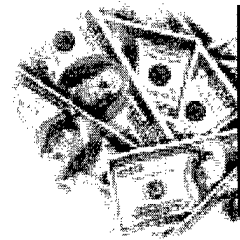
GAO's receipts and disbursements are processed by the U.S. Treasury. Funds with the U.S. Treasury represent appropriated funds available to pay current liabilities and to finance authorized purchase commitments.

Accounts Receivable

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

Property and Equipment

On October 28, 1988, Public Law 100-545 transferred control of the GAO building and land in Washington, D.C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of the building was \$15,664,000 and the book value of the land was \$1,191,000. GAO



recorded the building and the land as assets at the values stated above. The GAO building is listed in the National Register of Historic Places and has been designated as a heritage asset. Statement of Federal Accounting Standards Nos. 6 and 8 require that heritage assets be reported in a separate stewardship reporting section and not on the Statement of Financial Position (SOFP). GAO removed the building and land from the SOFP with the preparation of its 1996 principal statements.

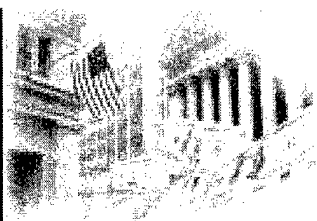
Property and equipment costing more than \$5,000 is capitalized at cost. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. These assets are depreciated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years.

Liabilities

Liabilities represent the amounts that are likely to be paid by GAO as a result of transactions that have already occurred; however, no liability is paid by GAO absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as liabilities not covered by budgetary resources. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

Federal Employee Benefits

Statement of Federal Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, requires that GAO recognize its share of the cost of providing future pension benefits to eligible employees over the period of time that services are rendered. The pension expense recognized in the principal statements equals the current service cost for GAO's employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions, with the factors applied by GAO provided by OPM, the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by GAO represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing to GAO.



The standard also requires that GAO recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. GAO accounted for and reported this expense in its principal statements in a manner similar to that used for pensions, with the exception that employees and GAO do not make current contributions to fund these future benefits.

Annual Leave, Sick and Other Leave

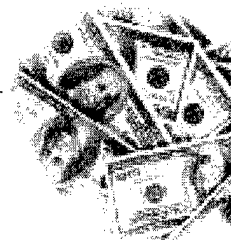
Annual leave is recognized as an expense and a liability as it is earned; the liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

Contingencies

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

Reclassifications

Certain amounts for 1998 have been reclassified to conform with the 1999 presentation of those amounts.



Note 2. Property and Equipment, Net

The composition of property and equipment as of September 30, 1999, is as follows:

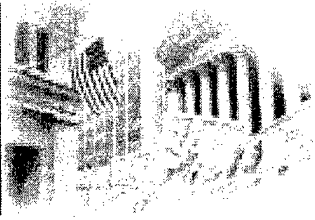
Dollars in Thousands

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building improvements	\$85,852	\$48,026	\$37,826
Computer and other equipment, and ADP software	46,379	28,673	17,706
Leasehold improvements	4,797	4,376	421
Assets under capital lease	11,030	4,366	6,664
Total Property and Equipment	\$148,058	\$85,441	\$62,617

The composition of property and equipment as of September 30, 1998, is as follows:

Dollars in Thousands

Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building improvements	\$ 80,410	\$41,110	\$39,300
Computer and other equipment, and ADP software	54,741	32,166	22,575
Leasehold improvements	4,328	4,183	145
Assets under capital lease	4,630	2,039	2,591
Total Property and Equipment	\$144,109	\$79,498	\$64,611



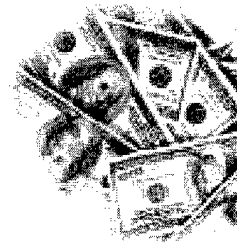
Note 3. Net Position

GAO's operations do not require permanent capital and are not expected to generate an operating surplus or deficit. Net Position is composed of two elements—unexpended appropriations and cumulative results of operations. Unexpended appropriations includes appropriations not yet obligated or expended, i.e., unobligated appropriations and unliquidated obligations. Unobligated appropriations were \$4,477,000 as of September 30, 1999, and \$2,166,000 as of September 30, 1998; unliquidated obligations were \$18,300,000 as of September 30, 1999, and \$30,614,000 as of September 30, 1998. Cumulative results of operations includes the amounts accumulated over the years by GAO from its financing sources less its expenses, including donations and transfers of capitalized assets and an amount representing GAO's liabilities not covered by budgetary resources. The former represents GAO's investment in capitalized assets, including supplies, net of capital lease liability.

Liabilities not covered by budgetary resources represent aggregate amounts of congressionally authorized long-term liabilities (annual leave, workers' compensation, and retirement benefits for Comptrollers General) that are expected to be funded by future years' appropriations.

Note 4. Net Cost of Operations

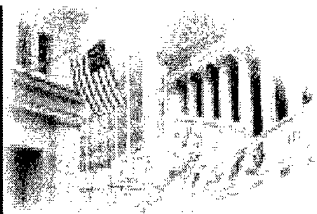
The Statement of Net Cost shows the full and net operating costs of GAO's major programs. Expenses for salaries and related benefits for fiscal years 1999 and 1998 amounted to \$291,860,000 and \$276,085,000, respectively. In fiscal years 1999 and 1998, salaries and related benefits were 75 percent and 74 percent, respectively, of GAO's net cost of operations. Included in the net cost of operations are federal employee benefit costs paid by OPM and imputed to GAO of \$19,839,000 in fiscal year 1999 and \$20,188,000 in fiscal year 1998. Revenues from reimbursable services earned by a program area are shown as an offset against the full cost of the



program to arrive at its net cost. These revenues consist primarily of billings to federal government corporations for financial statement audits performed by GAO and to federal agencies for detailed GAO employees performing GAO mission-related work. Earned revenues that are insignificant or cannot be associated with a major program area are shown in total. Revenues from reimbursable services for fiscal years 1999 and 1998 amounted to \$1,492,000 and \$2,556,000, respectively. The net cost of operations represents GAO's operating costs that must be funded by financing sources other than revenues earned from reimbursable services. These financing sources are presented in the Statement of Changes in Net Position.

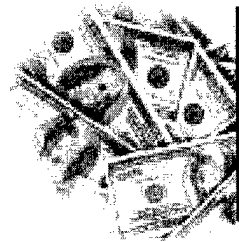
Note 5. Net Financing Sources

GAO's financing sources, other than reimbursable services, consist of appropriations used and imputed financing, less transfers-out. Appropriations are considered used as a financing source when goods and services are received or benefits are provided. This is true whether the goods, services, and benefits are paid prior to the reporting date or are payable as of that date, and whether the appropriations are used for items that are recorded as expenses or are capitalized. Imputed financing is the offset to the federal employee benefit costs paid by OPM and imputed to GAO that are reported on the Statement of Net Cost. Transfers-out represent the book value of capitalized assets transferred from GAO to other federal agencies without reimbursement.



Note 6. Spending Authority from Budget Transfers and Reimbursements

Budgetary resources made available to GAO include spending authority from budget transfers and reimbursements arising from both revenues earned by GAO from providing services to other federal entities for a price (reimbursable services) and cost sharing and pass-through contract arrangements with other federal entities. Fiscal year 1999 budget transfers consisted of budget authority transferred-in from the U.S. Agency for International Development for assessing disaster recovery assistance related to Hurricane Mitch and from the Department of Health and Human Services for specified studies of the Organ Procurement and Transplantation Network. Budget transfers in fiscal year 1998 consisted primarily of budget authority transferred-in from the Federal Election Commission (FEC) for a GAO directed audit of the FEC and from funds previously deposited in the special account established pursuant to 31 U.S.C. 782 related to leasing of space in the GAO building. Reimbursements from cost sharing and pass-through contract arrangements consisted primarily of collections from other federal entities for the support of the Joint Financial Management Improvement Program and FASAB and collections from other federal entities that utilize standing GAO contracts for obtaining accounting and auditing services from CPA firms. The costs and reimbursements for these activities are not included in the Statement of Net Cost.



Note 7. Leases

Capital Leases

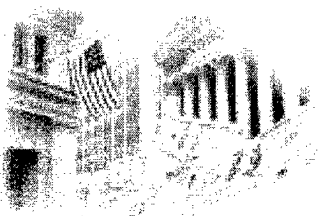
GAO has entered into several noncancelable capital leases under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. When GAO enters into these leases, the present value of the future lease payments is capitalized and recorded as a liability.

Operating Leases

GAO leases office space from the General Services Administration and has entered into various other operating leases for office communication and ADP equipment. Generally, leases are cancelable by either party without penalty, upon 120 days' notice, and future lease payments are not accrued as liabilities. Lease costs for office space and equipment for fiscal years 1999 and 1998 amounted to approximately \$7,483,000 and \$7,300,000, respectively. GAO's estimated future minimum lease payments are as follows:

Dollars in Thousands

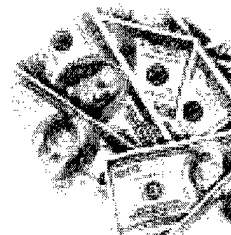
Fiscal Year End September 30	Total
2000	\$ 6,979
2001	4,277
2002	3,945
2003	2,701
2004	1,833
Thereafter	3,701
Total Estimated Future Lease Payments	\$23,436



Note 8. Federal Employee Benefits

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes contributions to the CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay. The pension expense recognized in GAO's principal statements for fiscal years 1999 and 1998 amounted to approximately \$34,906,000 and \$34,514,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of \$11,899,000 and \$12,847,000, respectively. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's principal statements. However, the payments to FICA that GAO makes are recognized as operating expenses. These payments amounted to approximately \$9,765,000 and \$8,696,000 during fiscal years 1999 and 1998, respectively. Similarly, to the extent that GAO employees are covered by the thrift savings component of FERS, GAO payments to the plan are operating expenses. GAO's costs associated with the thrift savings component of FERS during fiscal years 1999 and 1998 amounted to approximately \$4,535,000 and \$3,964,000, respectively.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGLIP) and may continue to participate after retirement. GAO makes contributions to the FEHBP and FEGLIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses and, during fiscal years 1999 and 1998, amounted to approximately \$9,349,000 and \$8,511,000, respectively. Using the cost factors supplied by OPM, GAO has also recognized an expense in its principal statements for the future cost of post-retirement health benefits and life insurance for its employees. These

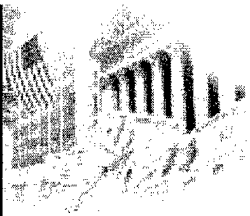


costs amounted to approximately \$7,940,000 and \$7,341,000 during fiscal years 1999 and 1998, respectively, and are financed by OPM and imputed to GAO.

Comptrollers General and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations and amounted to approximately \$246,700 and \$244,500 during fiscal years 1999 and 1998, respectively. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was \$2,492,000 as of September 30, 1999, and \$2,496,000 as of September 30, 1998.

Note 9. Workers' Compensation

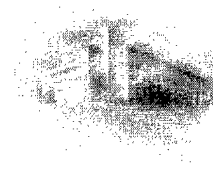
The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by GAO. GAO recorded an estimated liability for claims incurred as of September 30, 1999 and 1998, and expected to be paid in future periods. The total liability also includes amounts paid to claimants by DOL as of September 30, 1999 and 1998 of \$2,146,000 and \$2,176,000, respectively, but not yet reimbursed to DOL by GAO.



Note 10. Davis-Bacon Act Trust Function

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments. GAO maintains this fund to pay claims relating to the Davis-Bacon Act and Contract Work Hours and Safety Standards Act violations. Under these acts, DOL investigates violation allegations to determine if federal contractors owe additional wages to covered employees. If DOL concludes that a violation has occurred, GAO collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the employee. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration totaled approximately \$4,674,000 on September 30, 1999. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1999, receipts and disbursements in the trust amounted to \$1,695,000 and \$1,480,000, respectively. Since the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal statements.

HERITAGE ASSETS
U.S. GENERAL ACCOUNTING OFFICE
ANNUAL STEWARDSHIP INFORMATION
AS OF SEPTEMBER 30, 1999



Heritage assets are property, plant, and equipment (PP&E) possessing one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics. In general, the cost of heritage assets is not often relevant or determinable, and the useful life of heritage assets is not reasonably estimable for depreciation purposes. Rather, the most relevant information about heritage assets is their existence and condition. Therefore, heritage assets are required to be reported only in terms of physical units. However, in the case of the GAO building, its value is known as described below.

On October 28, 1988, Public Law 100-545 transferred control of the General Accounting Office building and land in Washington, D. C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of the building was \$15,664,000, and the book value of land was \$1,191,000. GAO recorded the building and the land as assets at the values stated above.

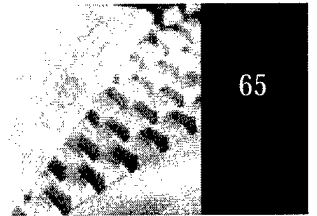
The GAO building is listed in the National Register of Historic Places as a symbol of a new age in federal office design. The building holds historical significance as the first structure erected exclusively for occupancy by the General Accounting Office. It is one of the first federal office buildings to be completely air-conditioned and artificially lit; and it was the first modern, block-type building to be constructed for the federal government. Its construction marked a distinct departure from the "fish-bone" type of office building, which used either interior courts or a series of wings branching from a central spine in order to provide both air and light.

Statement of Federal Accounting Standards Nos. 6 and 8 require that heritage assets be reported in a separate stewardship reporting section and not on the Statement of Financial Position (SOFP). GAO removed the building and land from the SOFP with the preparation of its 1996 principal statements.

Since acquiring control of the building, GAO has expended considerable resources for renovation and improvement of the building, including asbestos abatement, major redesign of office space, installation of communication wiring for the local area network, upgrading of the fire alarm system, and renovation of the parking garage—all to enhance use of the building for operating purposes. The costs of these projects have been capitalized as general PP&E and depreciated over their expected useful lives. Building improvement for operational efficiency is expected to continue.

Maintenance of the building has been kept on a current basis, and the expense is recognized as incurred. There is no significant deferred maintenance cost.

REPORT OF THE AUDIT ADVISORY COMMITTEE



The Audit Advisory Committee assists the Comptroller General in overseeing the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the Committee meets with agency management and its internal and external auditors to review and discuss GAO's external financial audit coverage, the effectiveness of GAO's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact GAO's principal statements. The Committee reviews the findings of the internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews and comments on the draft Accountability Report, including its principal statements. The Committee met twice during fiscal year 1999. During these sessions, the Committee met with the internal and external auditors without GAO management being present.

A handwritten signature in cursive script that reads "Sheldon S. Cohen".

Sheldon S. Cohen
Chairman
Audit Advisory Committee

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Independent Auditor's Report

Comptroller General of the United States

In our audit of the General Accounting Office for fiscal year 1999, we found

- the Principal Statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles;
- the General Accounting Office had effective internal control over financial reporting and compliance with laws and regulations; and
- no reportable noncompliance with laws and regulations we tested and no instances in which the General Accounting Office's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The following sections discuss, in more detail, the above conclusions, our conclusions on the Management Discussion and Analysis (MD&A) and other supplementary information, and the scope of our audit.

Opinion On Principal Statements

In our opinion, the accompanying Principal Statements including the notes thereto on pages 46 through 62 present fairly, in all material respects, as of and for the years ended September 30, 1999 and 1998, the General Accounting Office's:

- financial position;
- net cost of operations;
- changes in net position;
- status of budgetary resources; and
- financing.

in conformity with generally accepted accounting principles.

Opinion On the Effectiveness Of Internal Control

In our opinion, the General Accounting Office maintained, in all material respects, effective internal control over financial reporting and compliance with laws and regulations as of September 30, 1999 that provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the Principal Statements or to stewardship information, would be prevented or detected on a timely basis.

Compliance With Laws and Regulations and FFMIA Requirements

The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion. However, our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable



under generally accepted government auditing standards or the Office of Management and Budget's (OMB) Bulletin 98-08, as amended. Our tests disclosed no instances in which the General Accounting Office did not substantially comply with the following requirements of FFBIIA: (1) federal financial management systems requirements, (2) generally accepted accounting principles for federal entities, and (3) the United States Government Standard General Ledger at the transaction level. This conclusion is intended solely for the information of Congress and the General Accounting Office's management and is not intended to be, and should not be, used by anyone other than these specified parties.

Consistency Of Other Information

Required supplementary information (including stewardship information), MD&A, and other accompanying information (OAI) contain a wide range of data, some of which are not directly related to the Principal Statements. We did not audit this information and express no opinion on it. However, with regard to required supplementary information, we compared this information for consistency with the Principal Statements and discussed the methods of measurement and presentation for consistency with General Accounting Office officials. With regard to MD&A and OAI, we read the information and considered whether it was materially inconsistent with the information in the Principal Statements. Based on these limited procedures, we found no material inconsistencies with the Principal Statements or nonconformance with OMB guidance.

Responsibilities and Methodology

Management has the responsibility for:

- preparing the Principal Statements in conformity with generally accepted accounting principles;
- establishing and maintaining effective internal control;
- preparing management's assertion, included on pages 34 and 35, that GAO maintained effective internal control over financial reporting and compliance with laws and regulations; and
- complying with applicable laws and regulations.

We are responsible for planning and performing our audit and examination to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and (2) management maintained effective internal control, in all material respects, based on criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, Management Accountability and Control, the objectives of which are:

- financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and
- compliance with laws and regulations - transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Principal Statements and any other laws, regulations, and government-wide policies identified by OMB Bulletin 98-08, Appendix C, as amended.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Principal Statements, with laws for which OMB Bulletin 98-08, as amended, requires testing, and with FFMIA requirements. Further, we are responsible for performing limited procedures with respect to certain other information appearing in this accountability report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the Principal Statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the Principal Statements; (4) obtained an understanding of internal control related to financial reporting, including safeguarding assets, compliance with laws and regulations, including execution of transactions in accordance with budget authority, and performance measures reported in the MD&A; (5) tested relevant internal controls over financial reporting, including safeguarding assets, and compliance, and evaluated the design and operating effectiveness of internal control; (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act of 1982; (7) tested compliance with selected provisions of laws and regulations, and (8) tested whether the General Accounting Office's financial management systems substantially comply with the FFMIA requirements, using the implementation guidance in OMB Bulletin 98-08, as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on internal control. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

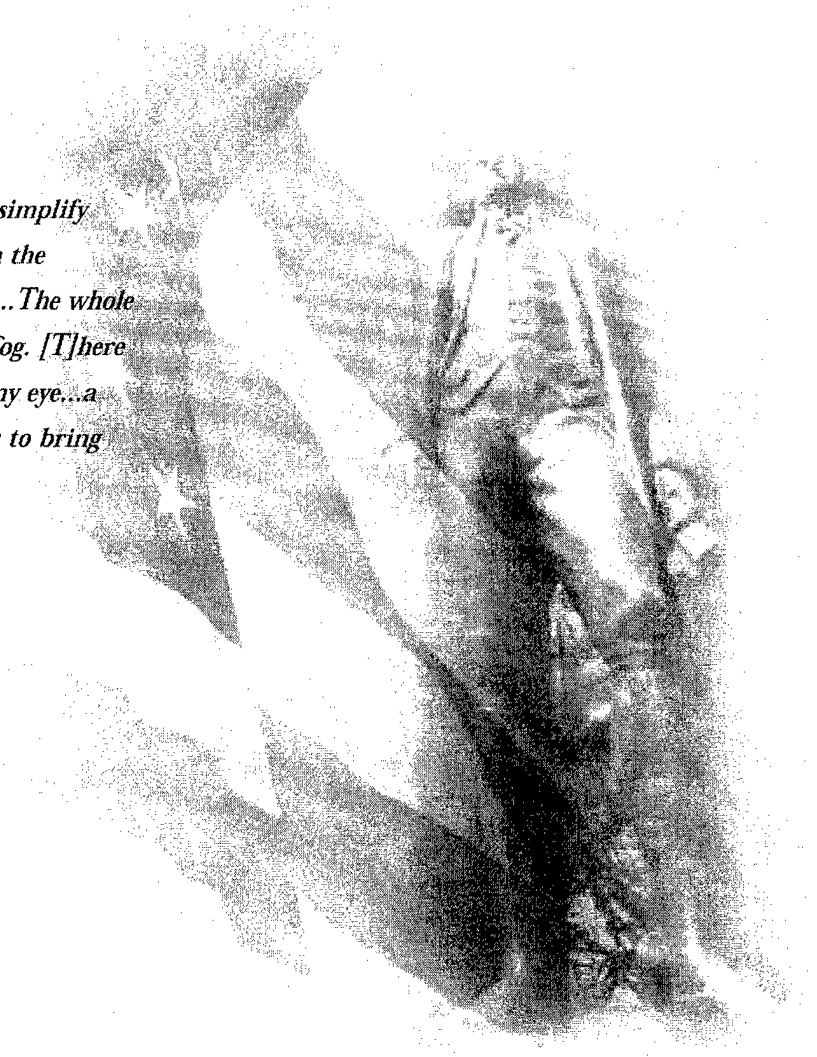
We performed our audit and examination in accordance with generally accepted auditing standards, *Government Auditing Standards* as issued by the Comptroller General of the United States, attestation standards established by the American Institute of Certified Public Accountants, and OMB Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. We believe our audit and examination provide a reasonable basis for our opinions.

Clifton Anderson L.L.C.

Greenbelt, Maryland
December 10, 1999

I think it an object of great importance...to simplify our system of finance, and to bring it within the comprehension of every member of Congress...The whole system [has been] involved in impenetrable fog. [T]here is a point...on which I should wish to keep my eye...a simplification of the form of accounts...so as to bring everything to a single centre.

*THOMAS JEFFERSON
APRIL, 1802*



PHOTOS

*Front Cover Jefferson Memorial
Photographer: Carol M. Highsmith
Source: Parks and History Association*

*Back Cover Jefferson Memorial
Photographer: National Park Service
Source: Courtesy of National Park Service, National Capital Region and Parks and History Association*