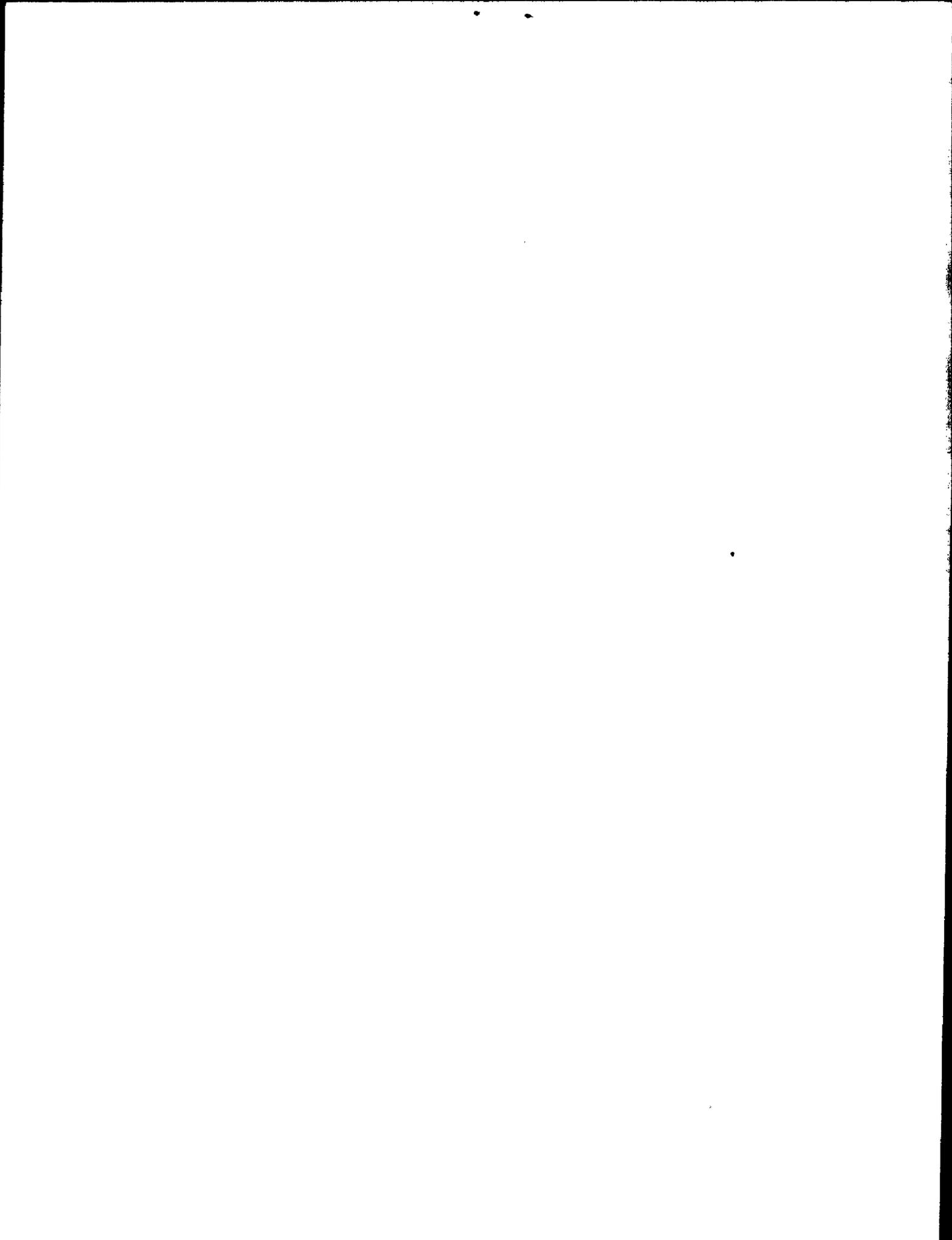

Comptroller General's Annual Report

1986

Resources, Community, and Economic Development ■
National Security and International Affairs ■ Human
Resources ■ Accounting and Financial Management ■
Information Management and Technology ■ Program
Evaluation and Methodology ■ General Government
■ General Counsel ■



Comptroller General's Annual Report

1986



Message from the Comptroller General



Charles A. Bowsher

Charles A. Bowsher

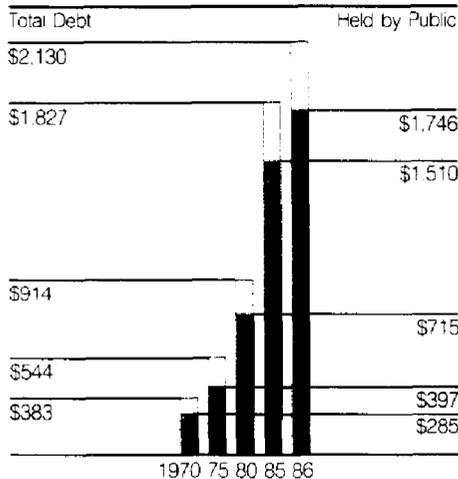
With annual deficits in the range of \$200 billion and an accumulated deficit on the order of \$2 trillion, the shortfall in meeting government outlays is critical.

During 1986 Congress first tried to reduce the deficit through the Gramm-Rudman-Hollings budget-cutting procedure. When GAO's role in providing an automatic trigger mechanism for that procedure was ruled unconstitutional, the Congress used the budget reconciliation process to avoid the pro rata cuts that would otherwise have been required. The resulting savings were estimated to be enough to meet the Gramm-Rudman-Hollings target. But, as we noted in our September report, estimates such as these must be viewed with great caution.

We are concerned that many of the proposed "savings" for fiscal year 1987 are questionable, since they only shift outlays or collections from one fiscal year to another, with no enduring effect on the deficit. Our concerns are shared by others, in both houses of Congress and on both sides of the aisle, who have spoken out about the "blue smoke and mirrors" being used to meet the deficit targets. There is a strong likelihood that the 1987 budget deficit will be higher than recent estimates. We could well see a repetition of the experience of 1986, when optimistic estimates were followed by a dramatic worsening of the situation as the year progressed.

Congress, the President, and the public must have accurate and meaningful information if they are to deal effectively with the federal deficit and make wise decisions about federal programs. For this reason, GAO has placed renewed emphasis on financial auditing, improved financial management systems, and better ways to present information about the federal budget. One of our most important objectives is to ensure that financial data about federal operations are both accurate and properly presented. Increasingly, Congress is turning to GAO for much of this information, and for objective and timely information about how government programs are working.

U.S. Treasury Debt (Dollars in billions)



Data Source: Office of Management and Budget

In 1986 the pressure to hold down program costs created an unusually receptive environment for our work; GAO's measurable accomplishments were the highest in our history. Further efficiencies are possible in almost every program, and GAO will continue to search for these improvements.

However, GAO's involvement goes beyond the search for efficiency. In 1986 we looked at many of the central issues and policy choices facing the Congress, and we will continue that emphasis in 1987. In light of recent events, we will look at the capability of regulatory agencies' systems to detect and combat insider trading activities in the financial markets. We also expect to be involved in determining the facts surrounding the recent disclosures of arms transfers to Iran and the disposition of the related funds.

In addition, we will examine the effectiveness of current and major new programs, such as the Strategic Defense Initiative, the new drug program, and immigration reform. Finally, we will continue to provide information, analysis, and recommendations to the Congress as it struggles to restore the vitality of our farm economy and financial institutions and seek ways to achieve a better balance in our international trading and financial relationships.

In today's environment, Congress must be sure that every dollar is spent wisely. GAO plays a uniquely valuable role in this regard by issuing reports and giving testimony and informal briefings to members of Congress on almost every issue imaginable. It is of paramount importance that we respond to the needs of Congress and that we do it in a reliable, objective, and timely way. Our work has been characterized throughout the years by our commitment to meet those needs. It is a commitment we will continue to stand by now and in the future.

Fiscal Year 1986 Highlights

Reports	To Congress, Committees, and Members	742
	To Agencies	108
	Testimony to Committees	197
Financial Accomplishments Identified	Budgetary Savings	\$8.4 billion
	Better Use of Funds	\$9.6 billion
Total		\$18.0 billion
GAO Operating Budget		\$288.6 million
Total Staff		5,100

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GAO Addresses the Issues

GAO's pledge of service to the Congress continued to drive the agency's work in fiscal year 1986. In virtually every area that received congressional scrutiny, GAO was on hand to gather information and analyze data. The breadth of this coverage allowed Congress to rely on GAO for information on issues ranging from foreign aid to farm aid, from missiles to Medicare, from transportation to taxes. Acting as the eyes and ears of Congress, GAO staff journeyed from the drought-ridden lands of northern Africa to the Central American tropics in search of the firsthand information and insights needed for sound oversight and legislative decisions.

Much of GAO's work culminates in recommendations for more efficient and economical government operations and more successful government programs. Each year, actions by Congress and federal agencies on these recommendations save the government billions of dollars. In fiscal year 1986, GAO made over 1,000 recommendations and identified almost \$65 in financial benefits for every dollar it spent. With an operating budget of \$289 million, GAO contributed to legislative and executive branch actions that resulted in \$18 billion worth of impact on government spending.

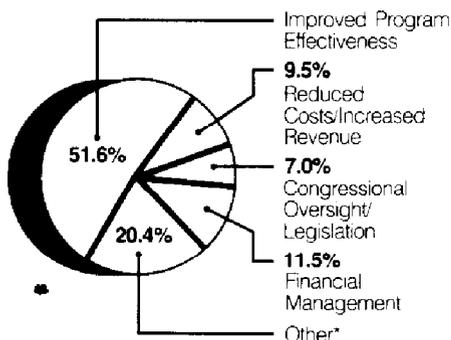
GAO's work also results in many improvements in government operations and services that are not readily measurable in dollars. Although the value of these changes is not easily quantifiable, improvements such as these not only help government run more efficiently, they also benefit the people who rely on or are affected by government programs. This is particularly important at a time when the need to reduce the government's budget deficit can conflict with the need to ensure the availability of quality government services.

GAO brings about change in many ways. In addition to making recommendations in written reports, GAO works closely with Congress and the executive agencies to explore ideas and suggestions for improvement as rapidly as possible. Agencies often take corrective action at the time discussions with GAO staff reveal program deficiencies, rather than waiting for a formal recommendation in a report. Similarly, suggestions made in testimony and briefings often result in congressional or agency action.

GAO uses several means to communicate the results of its work. In fiscal year 1986 GAO issued 850 reports and briefing documents to Congress, congressional committees, and agency heads; testified 197 times before congressional committees; commented on 69 bills; and provided over 250 legal interpretations. In addition, there were countless conferences, consultations, and planning sessions with legislators and their staffs. Monthly and annual lists of GAO's report titles are widely circulated to congressional and executive branch decisionmakers as well as to the media. Copies of GAO reports are provided to the public free of charge.

The following section presents a few highlights from GAO's work on issues of special significance during 1986. While these issues represent only a small part of GAO's work, they serve to underline the breadth of the questions facing the nation's lawmakers and the extent to which GAO is committed to helping find the answers.

Types of Recommendations Made in FY 1986



*Includes recommendations for agency oversight, agency compliance, and funding increases.

GAO's annual "Status of Open Recommendations" report summarizes the findings and open recommendations resulting from GAO's work and is available upon request.

Gramm-Rudman-Hollings: A Controversial Role for GAO



“Whatever the fate of the automatic deficit reduction process after Bowsher v. Synar, reducing the federal deficit remains one of the most important challenges facing the government.”

James F. Hinchman
Deputy General Counsel

GAO's place in the American government has been questioned since the agency's creation in 1921. The Comptroller General is appointed by the President, yet may be removed from office only by a joint resolution of Congress that is approved by the President. GAO primarily supports Congress, but it also has executive duties. GAO has been variously classified as a legislative branch agency, an executive agency, and an independent agency in the “fourth branch” of government. In 1986 the Supreme Court addressed this issue in its ruling on the constitutionality of GAO's role under the Gramm-Rudman-Hollings deficit reduction legislation in the case of *Bowsher v. Synar*. According to the court, the Comptroller General is part of the legislative branch and therefore may not direct the President to make budget cuts as provided by the act; in the court's view, this would amount to “execution of the law,” an area which the Constitution reserves for executive branch officials.

■ GAO's Role in Deficit Reduction

In response to concern over the growing federal deficit, Congress enacted legislation in December 1985 giving the Comptroller General a key role in eliminating the deficit by 1990. Under the Gramm-Rudman-Hollings legislation, the Office of Management and Budget and the Congressional Budget Office were to issue an annual joint report to the Comptroller General, specifying their estimates of federal expenditures and

revenues and the extent to which the deficit would exceed ceilings established in the act. The Comptroller General was then to conduct an independent analysis and report the reductions required by the legislation to the President and Congress. The President was to reduce expenditures in accordance with the Comptroller General's report. In January 1986 GAO issued its first report to the President and the Congress under the act. The report called for spending reductions totalling \$11.7 billion.

■ The Supreme Court Decision and GAO's Future Role

Even as GAO was successfully fulfilling its role under Gramm-Rudman-Hollings, its continued participation in the process was being challenged. Shortly after the act's passage, several members of Congress and federal employee unions filed lawsuits in federal district court, claiming that the act was unconstitutional. One of their chief arguments was that the Comptroller General was in the legislative branch and should not, therefore, be given duties that are executive, including the responsibility for making decisions that are binding on private parties or other officers of government. The Department of Justice joined in this argument, and the federal district court accepted it.

When attorneys for the Senate, the House of Representatives, and GAO appealed the district court decision to the Supreme Court, they argued that the Comptroller General is an in-

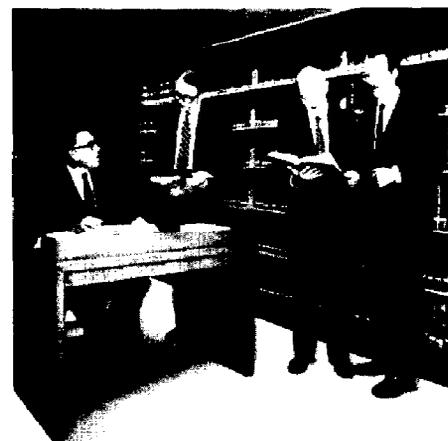
dependent officer who has never been threatened with removal and who has historically been free from congressional control in performance of his duties. In *Bowsher v. Synar* the Supreme Court affirmed the lower court decision, ruling that the Comptroller General is subservient to Congress because he may be removed by joint resolution. In the Supreme Court's view, the Constitution's separation of powers prevents a legislative branch official from executing the Gramm-Rudman-Hollings legislation by prescribing the budget reductions to be made by the President.

The Supreme Court's conclusion that GAO is part of the legislative branch has implications for other GAO activities. The great majority of GAO's functions involve investigating and evaluating federal activities; these functions, performed largely to advise and assist Congress, are certainly appropriate for a legislative branch agency. Some GAO duties, however, are not easily defined as "executive" or "legislative," including GAO's role under the Competition in Contracting Act.

Prior to the Supreme Court's decision in *Bowsher v. Synar*, a federal appeals court upheld the Comptroller General's role in deciding bid protests under the Competition in Contracting Act. Under the act, most government procurements may be frozen while the Comptroller General considers protests from people who believe they have been unfairly or illegally treated. The Comptroller General could, the court concluded, perform his duties under the act without violating the separation of powers. The court of appeals reaffirmed that conclusion after the *Bowsher v. Synar* decision. The court said that while the Comptroller General's duties under the Competition in Contracting Act are to some extent executive in character, his performance

of those duties does not disrupt the balance of power between the executive and legislative branches. Its opinion should aid Congress in considering GAO's future responsibilities.

In the meantime, GAO remains at the forefront of deficit reduction efforts. Even though it no longer plays a statutory role in the Gramm-Rudman-Hollings process, at the request of Congress GAO still issued its own report on deficit reduction for fiscal year 1987. GAO carried out the same kinds of assessments it would have performed under the law—forecasting the deficit, calculating across-the-board budget cut percentages, and examining individual accounts. The report and subsequent testimony provided Congress with a valuable, independent source of information to use in its deficit reduction efforts.



GAO's attorneys litigated constitutional questions about the agency's role in deficit reduction and in bid protest resolutions.

Nos. 85-1377, 85-1378, 85-1379

IN THE
Supreme Court of the United States
OCTOBER TERM, 1985

CHARLES A. BOWSHER,
COMPTROLLER GENERAL OF THE UNITED STATES, *et al.*,
Appellants,
v.
MIKE SYNAR, MEMBER OF CONGRESS, *et al.*,
Appellees.

On Appeal from the United States District Court
for the District of Columbia

BRIEF FOR APPELLANT
COMPTROLLER GENERAL OF THE UNITED STATES

HARRY R. VAN CLEVE
General Counsel
JAMES F. HINCHMAN
Deputy General Counsel
ROBERT P. MURPHY
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* Counsel of Record
March 19, 1986
*Attorneys for the Comptroller
General of the United States*

Guarding the Nation: The Cost of National Defense

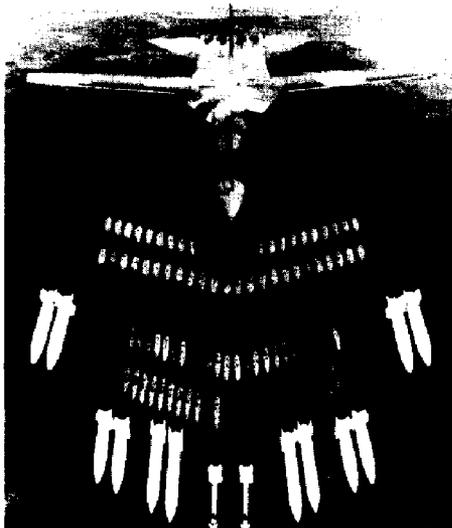


“The military establishment and its contractors must work together to bring about a stronger and more efficient defense.”

Frank C. Conahan
Assistant Comptroller General

The cost of our national defense has increased by almost 100 percent since 1980, reaching an estimated \$278.4 billion in fiscal year 1986. Faced with the need to curtail government spending, Congress and the Administration have placed the defense budget under increasing scrutiny. To help Congress in its efforts to control defense spending without sapping the nation's military strength, GAO is assisting congressional committees in their review and oversight of three key areas they have targeted: defense budget submissions, acquisition practices, and weapon systems programs. GAO also reviewed other national security issues ranging from chemical warfare to the Strategic Defense Initiative and civilian space programs. Nearly 30 percent of GAO's resources during the year was spent on defense-related work. In 1986 GAO's defense audit and evaluation work resulted in about \$10.3 billion in measurable benefits to the taxpayer.

GAO's evaluations of the defense budget led to recommended reductions of \$15 billion, mostly for ammunition, ships, Navy aircraft, and Army missiles.



■ Analyzing Budget Submissions, Acquisition Practices, and Weapon Systems Programs

Each year GAO's budget work for the House and Senate Appropriations Committees results in billions of dollars in measurable financial benefits to the taxpayer. Continuing these efforts in 1986, GAO's evaluations of major items in the Defense Department's budget led to potential budget reductions of about \$15 billion. The largest recommended reductions were for items such as ammunition, ships, Navy aircraft, and Army missiles.

In 1986 GAO also looked at how major weapon systems are acquired. As a result of its 1986 work, GAO identified several ways to modify the acquisition process to save money or improve production. For example, GAO studied the roles of the acquisition program manager and contracting officer and recommended ways for them to improve their performance and participation in the acquisition process. In reviewing DOD's profit policy, GAO concluded that the Department might be paying up to \$1.4 billion more in contractor profits than it intends and suggested several ways to avoid this. GAO also examined DOD's inventory management practices and reported that potentially significant problems existed at all levels of the supply system.

Turning to the area of weapon systems development, GAO reported on problems that could lead to ineffective weapons and wasteful purchases. For example, GAO reported that test results from the Bradley Fighting Vehicle could not be used to assess the vehicle's ability to meet threats and fulfill its battlefield roles. In another example, GAO's analysis of DOD's plans to spend \$4 billion to upgrade air defense forces with new F-16SC or F-30 aircraft found no substantial improvement in air defense capability compared with the standard practice of rotating older aircraft from the tactical fighter fleet. DOD has since decided not to buy the new aircraft. Concerning chemical warfare, GAO concluded that the Bigeye bomb had not been proven feasible,

had yet to meet its technical specifications, and was not ready for production.

DOD's method of budgeting for major weapon systems includes estimating the amount that inflation will add to the cost of these systems. After analyzing the agency's budget requests from previous years, GAO found that DOD had budgeted for inflation in major weapon systems at a rate of 30 percent greater than inflation in the rest of the economy. Because of this overestimate, DOD was requesting more money than was actually needed. In light of this information, Congress reduced DOD's 1986 procurement appropriation by \$1.7 billion.

■ Addressing Other National Security Concerns

GAO's 1986 work touched upon many other major defense issues. Responding to congressional concerns over the Navy's strategic homeporting plan, GAO analyzed the Navy's cost data for increasing the number of homeports and concluded that the Navy's estimates understated both the cost to establish the new homeports and the cost difference between new and existing ports.

In another area, GAO's analysis of military compensation showed it to

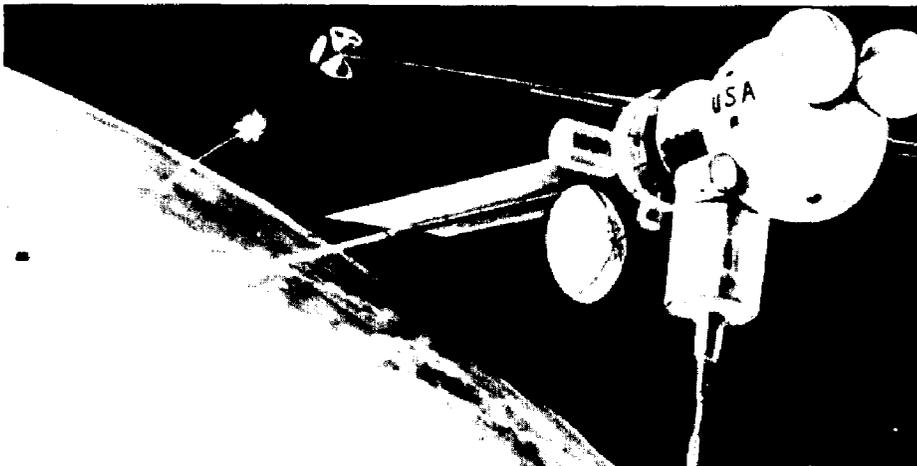
be a complex patchwork of over 40 different pay and allowance schedules with a multitude of supplemental benefits. GAO found that when comparing the compensation of military personnel and civilians at the same age and level of education, total compensation for the military was 27 percent higher, due largely to the more liberal military retirement system. As a result, DOD is studying proposals to reduce the cost of retirement benefits for new recruits.

GAO has also been active in the national debate over the military and civilian use of space. For example, in reviewing the Strategic Defense Initiative program GAO answered a variety of questions on research issues involving the optical and radar sensors for detecting incoming missiles' x-ray lasers. Because the Space Shuttle is used to launch DOD satellites, it also fell within the sphere of GAO's defense work. GAO issued 16 reports on the Space Shuttle program over the past 14 years. As a result of the Challenger accident GAO issued a report that said neither the contractor nor the government had been sufficiently aggressive in resolving significant and potentially serious quality control and safety problems and ensuring that corrective actions were being taken on the booster rocket motors.



“
Effective management of DOD's computer and telecommunications technology will be key to maintaining a strong national defense in the face of increasing budget constraints.
 ”

Warren G. Reed
 Director of Information Management and
 Technology



In reviewing the SDI program, GAO looked at research issues involving sensors for detecting incoming missiles.

Taxation: Efforts to Create and Administer a Fair System



“In doing our tax work, we try to consider the perspectives of all affected parties—Congress, tax administrators, tax practitioners, and taxpayers.”

Johnny C. Finch
Senior Associate Director for Tax Policy and Administration

In 1986 Congress passed one of the most sweeping tax reform bills seen in this century. This action came in response to growing congressional awareness that the nation's tax system had become overly complex, increasingly inequitable, and unnecessarily difficult for the public to understand and for IRS to administer. Faced with these problems, Congress made tax reform a major objective for 1986. During the past year, Congress and the Administration have continued to use GAO's reports and testimony to identify and produce needed improvements.

■ Evaluating Tax Policies

During tax reform deliberations, a wide spectrum of business and public interest groups provided Congress with information evaluating the effects of current tax laws and the potential effects of tax reform options. Flooded with contrasting and sometimes contradictory information, Congress needed an objective source of analysis to help it weigh tax reform strategies. GAO helped fill this need.

GAO was particularly active in analyzing various preferential tax provisions enacted over the years to advance economic and social policies. Congress turned to GAO to determine whether these provisions had achieved their intended effects and to evaluate other such provisions of the pending tax reform legislation.

In response, GAO analyzed the consequences of several tax provisions, including those dealing with tax-exempt bonds for rental housing construction and community development, tax credits for business energy and offshore drilling rigs, nonbusiness interest deductions, the tax-exempt status of Blue Cross/Blue Shield plans, and the completed contract method of accounting for income tax purposes.

GAO also analyzed how proposed tax changes will affect the agricultural and property/casualty insurance industries. In the agricultural area, GAO synthesized experts' opinions on issues such as the effects of tax policies on agricultural spending, the real beneficiaries of agricultural tax policy, and the interaction of agricultural tax policy with other farm policy. In the insurance area, GAO pointed out that, despite underwriting losses in certain insurance lines, the industry has been generally profitable since 1976 because of investment gains.

■ Improving IRS' Administration of the Tax System

In recent years, growing numbers of citizens have not complied with the tax laws, in part because of frustration with a system they perceived as unfair. The problems IRS experienced processing returns in 1985 further diminished the nation's trust in the agency's ability to administer the

Congress relied on GAO reports and testimony in enacting tax reform legislation.



tax laws. During 1986 GAO addressed these issues and assisted Congress in identifying the changes needed to improve IRS' administration of the tax system.

As part of this effort, GAO analyzed IRS' acquisition and use of computer systems. This work provided Congress with the information needed to review the problems IRS service centers had during 1985, IRS' efforts to correct these problems, and the adequacy of its resources to do so. GAO monitored the 1986 filing season and found that it was much more successful than the previous season.

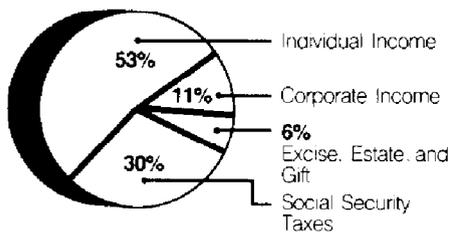
GAO also analyzed IRS' fiscal year 1987 budget request to help Congress determine whether IRS had sufficient resources to effectively administer the tax system. GAO's testimony demonstrated that the amounts IRS asked for to process returns and collect taxes might not be enough to cope with increasing work loads. GAO also noted that IRS' management information system did not provide the data needed to determine where additional resources would best be allocated or whether the existing allocations provided the best use of resources.

During 1987 GAO will continue to focus on key tax policy and administration issues. These range from options for a value-added tax to IRS' acquisition and use of computer systems to improve the efficiency and fairness of IRS programs.



GAO's analysis of IRS' acquisition and use of computer systems provided Congress with the information needed to review the problems IRS service centers had during 1985.

**Gross Internal Revenue Tax Collections,
1985: \$742.9 billion**



Data Source: Internal Revenue Service

Nuclear Energy: Assessing Safety Issues



“Nuclear power is at a crucial crossroads. Its future depends on assuring the safe operation of plants and environmentally sound disposal of radioactive wastes.”

J. Dexter Peach
Assistant Comptroller General

Last spring the world was shocked by the disaster at the Soviet Union's Chernobyl nuclear power plant. In America, the fears that had erupted during the 1979 Three Mile Island accident were rekindled. As the full extent of the Chernobyl tragedy became known, the continuing international debate over the wisdom of developing atomic energy intensified. To face this issue, Congress needed information on matters such as the potential for serious nuclear accidents, the dangers involved in disposing of radioactive wastes, and the effectiveness of government regulation over nuclear power plants. GAO was able to aid Congress by analyzing these critical issues and offering recommendations for strengthening safeguards against nuclear disasters.

■ Ensuring the Safety of DOE's Nuclear Facilities

At the time of the Three Mile Island accident, GAO had just completed a report that focused national attention on the need for major improvements in emergency preparedness around nuclear facilities. When news of the Chernobyl accident struck, GAO again was producing a relevant nuclear safety study. In this instance, GAO's study highlighted safety concerns involving the Department of Energy's management of the more than 50 nuclear facilities it uses to produce nuclear weapons materials and perform nuclear research.

Over the years, GAO has voiced concern over DOE's management of these facilities. In its most recent study on the subject, GAO identified

several significant weaknesses in the analytical reviews DOE uses to evaluate and improve the safety of its nuclear facilities. The study recommended ways to strengthen DOE's safety analysis program, including having DOE's safety analysis reports reviewed by an independent organization such as the Nuclear Regulatory Commission. In an ongoing study, GAO is evaluating DOE's handling of safety factors at four production reactors located in South Carolina.

Following the Chernobyl accident, GAO compared and contrasted safety features and other characteristics of the failed Soviet reactor with those of a DOE weapons material production reactor on the Hanford Reservation in Washington. As part of this review, GAO identified the safety implications of plans to extend the life of the Hanford reactor and provided a scorecard on how well DOE's emergency preparedness plans address recommendations made in earlier GAO reports.

In another review, GAO identified serious environmental problems at ten of DOE's nuclear facilities, including contamination of groundwater and soil with radioactive and hazardous wastes. Even with increased emphasis on DOE's environmental program, it will take many years to correct the environmental problems at some of these facilities.

Following Chernobyl, GAO compared safety and other features of the failed Soviet reactor with those of a weapons material production reactor in the U.S.



■ Seeking Safe Disposal of Nuclear Wastes

Hazardous radioactive waste materials produced in nuclear power plants must be isolated from the environment for centuries before they are safe. In 1982 Congress enacted legislation to provide the necessary disposal facilities and establish a funding mechanism. The cost to construct the two disposal facilities envisioned by the legislation was estimated at \$24 to \$32 billion. GAO has played a major role in monitoring federal efforts to achieve congressional objectives for coping with nuclear wastes.

In 1986 GAO continued to provide quarterly reports on the status of the nuclear waste fund and DOE's nuclear waste program. In addition, GAO evaluated DOE's procedures for providing nuclear waste disposal grants to affected states and Indian tribes. The recommendations resulting from this review should improve the way DOE defines which activities are eligible for funding, presents budget data in appropriation requests, and ensures that grant recipients comply with reporting requirements.

As the fiscal year ended, GAO had launched three new studies involving the nuclear waste program and fund.

■ Regulating Nuclear Plants

More than 300 nuclear power plants are operating around the world, including over 100 in the United States. As part of its continuing effort to address nuclear oversight issues, GAO reported on activities such as the International Atomic Energy Agency's efforts to help prevent nuclear reactor accidents and lessen accident consequences. On the domestic front, a report dealing with the Nuclear Regulatory Commission's oversight role at nuclear plants emphasized the need for early detection and correction of weaknesses that might lead to safety problems. Finally, GAO assessed the financial consequences a serious nuclear accident might have on the public. This assessment will help the Congress in its deliberations on proposals to extend and amend current legislation that provides a nuclear accident insurance system and establishes a limit on accident liability.

“
Over the past year, GAO has provided . . . a series of excellent reports that clearly show environmental protection and safety concerns are taking a backseat to building bombs.
”

Senator John Glenn



Even with increased emphasis on Energy's environmental program, it will take many years to correct the environmental problems at some nuclear facilities.

Aviation: In Search of Safer Airways



“Because FAA did not keep track of what inspections it had done or what it found, it could not say with assurance that airlines were following safety regulations.”

Herbert R. McLure
Associate Director for Transportation

The near-record 561 deaths from U.S. airline accidents in 1985 heightened public and congressional concern over how well the Federal Aviation Administration is overseeing aviation safety. Attention to the safety issue began to grow in 1978 after the airline industry's deregulation and rose dramatically following the 1981 air traffic controllers' strike and subsequent firings. These events have posed continuing challenges for FAA as it seeks to maintain air safety and ensure airline compliance with safety regulations.

GAO's aviation work has been instrumental in helping Congress and the Department of Transportation ensure that these challenges are met. In 1986 GAO addressed various aspects of FAA's safety responsibilities and its plans to modernize and automate its air traffic control system. As a result of numerous congressional requests, GAO is continuing to monitor these and other issues as FAA responds to the changing needs of a deregulated airline industry.

■ Rebuilding the Air Traffic Control Work Force
In August 1981 the administration fired about 11,000 striking air traffic controllers. FAA hired new controllers but, by the end of 1985, had about 2,200 fewer controllers than before the strike. Although fewer in number and not as experienced as the pre-strike controllers, the new controllers had to handle an increased volume of traffic.

GAO surveyed about 5,500 air traffic controllers, supervisors, and managers at the 74 major air traffic control facilities in the continental U.S. and found that the controllers felt overworked to the point where they believed their ability to maintain an adequate margin of safety could eventually be impaired. While the controllers believed air travel remained safe, GAO's consultant during the review, the Flight Safety Foundation, concluded that the nation's air traffic control system did not provide the same level of safety as before the strike. GAO's March 1986 report pointed out that FAA will need years to increase its complement of qualified controllers and even longer to provide new equipment and other measures to reduce their work load. GAO recommended that FAA restrict air traffic at facilities where controllers are working large amounts of overtime until the agency can meet its staffing goals.

■ Strengthening FAA's Airline Safety Inspection Program

FAA's enforcement of its airline safety regulations has also been affected by a 30-percent reduction in the number of airline inspectors between 1978 and 1983. Budget constraints forced FAA to make these cuts, even though the airline industry had grown larger and more complex after deregulation. GAO found that, partly because FAA did not have enough inspectors and partly because FAA did not keep track of what its inspectors were doing, it

GAO's March 1986 report pointed out that FAA will need years to increase its complement of qualified controllers.



could not say with assurance that all airlines were maintaining and operating their aircraft safely.

GAO recommended that FAA review how its current inspector work force was allocated and revise its inspection standards to help inspectors target airlines that have possible safety problems. While long-term initiatives to improve FAA's training program were underway, GAO noted that the agency must overcome a more immediate problem—insufficiently experienced inspectors providing supervision and on-the-job training.

■ How Much Should a Safer, More Efficient System Cost?

What to spend on a safer and more efficient air traffic control system and how to spend it are other prominent congressional concerns. On this subject, GAO reported that the Airports and Airways Trust Fund has an unused balance of \$3.2 billion, which could grow to \$12.4 billion by 1990 if funding is automatically reauthorized. Current funding will expire at the end of fiscal year 1987 unless reauthorized by Congress and GAO outlined options for reducing the amount of unused funds.

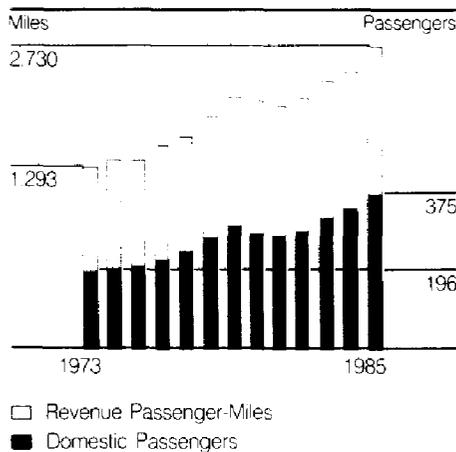
One of the fund's primary purposes is to pay for FAA's National Airspace System Plan—a plan to modernize, upgrade, and consolidate the nation's air traffic control system. GAO's work has demonstrated that the plan was overly optimistic and that unexpected technical hurdles have resulted in years of delay. Meanwhile, FAA's wish to take advantage of the greater efficiency the plan offered caused them to shortcut some customary testing of systems before they committed to large-scale purchases.

For example, GAO found that FAA's production of weather radars to detect and warn of wind shear was premature; the equipment had not been operationally tested nor had several technical problems been resolved. GAO considers testing and evaluating the equipment crucial since both controllers and pilots rely on it to make life-and-death decisions. In another case, GAO reported that testing and delivery of the new air traffic computer system was delayed 6 months because of unresolved software problems. This delay will affect the controllers' ability to identify and handle potentially dangerous situations where aircraft may cross into others' flight paths. In a third example, GAO found problems with the procedure FAA was following to acquire a multi-billion-dollar automation system, which may affect the future reliability of the system. GAO has repeatedly urged FAA to "fly before it buys."



GAO found problems with FAA's procedure for acquiring a multibillion-dollar automation system.

Changes in Air Traffic 1973-1985
(Figures in millions)



Data Source: Department of Transportation

Farm Credit: Exploring the Crisis



“Full and accurate disclosure of the financial condition of American agriculture and its lending institutions is essential for Congress to adequately address this complex and serious situation.”

Craig A. Simmons
Senior Associate Director for Federal Financial Institutions

Despite very large increases in federal farm assistance programs in recent years, the financial condition of the nation's farmers has worsened. The number of failed and failing farmers has grown to levels not seen since the Depression. Crop surpluses have mounted, prices fallen, and farm exports declined, while the average value of farmland has dropped nearly 28 percent since 1982. Although farm debt has leveled off since the effects of high inflation in the 1970s, more and more farmers are unable to service their obligations.

GAO identified and reported on problems faced by the Farm Credit System, agricultural banks, and the Farmers Home Administration as they tried to respond to the farmers' financial difficulties. These institutions accounted for \$136 billion (65 percent) of all outstanding farm credit in 1985. GAO's work in this area resulted in better disclosure of financial distress and wiser loan policies.

■ Future Losses Predicted for the Farm Credit System

The Farm Credit System, a private, borrower-owned network of farm lending institutions, is the nation's largest agricultural lender. In 1985 it faced a significant deterioration in its financial condition, including a 13-percent decline in its loan portfolio, a \$2.8 billion operating loss, and about \$10 billion in high-risk loans. In noting the continuation of these problems during 1986, GAO pointed out that the system's net earnings are extremely sensitive to interest rate

fluctuations because its variable rate loans are usually funded with long-term, fixed-rate bonds.

Recognizing the effects of problem loans and high borrowing costs, GAO predicted that the system's losses will continue in future years unless a dramatic turnaround in the agricultural economy or a significant increase in market interest rates takes place. The probability that current conditions will continue to prevail, however, raises serious questions about the system's viability. In reporting to Congress, GAO concluded that the Farm Credit System will soon exhaust its surplus and require new capital from federal or private sources. GAO's work also prompted the system to be more candid in disclosing its financial problems.

■ Commercial Banks Continue to Fail

Problems in the farm sector have also contributed to the financial stress of an increasing number of agricultural commercial banks. Although the nearly 4,000 agricultural banks (those with 25 percent or more of assets in agricultural loans) represented only one-fourth of all commercial banks in 1985, they accounted for over half of all bank failures and about 40 percent of all problem banks. Sixty-two agricultural banks failed in 1985, and the pattern continues. Although agricultural banks tend to be small, they hold over one-fifth of the country's total farm debt.

Commercial banks saw a 44-percent rise in the number of farm loans written off as uncollectible between 1984 and 1985.



GAO reported that nonagricultural commercial banks are also facing financial problems in their farm loan portfolios. Between 1984 and 1985 these banks experienced a 16 percent increase in their nonperforming or delinquent farm loan portfolios, a 44-percent rise in farm loans written off as uncollectible, and a 31-percent hike in the number of loans where interest accrual has been suspended because of doubts about full repayment. These increases occurred even though commercial banking's total farm loan portfolio declined nearly 6 percent during this period. Future reviews will continue to monitor the financial condition of commercial banking.

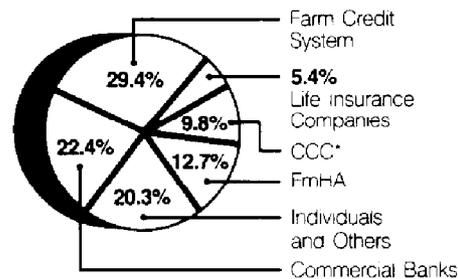
■ The Farmers Home Administration: The Last Resort Lender

In analyzing the nature of the farm debt, GAO noted a shift in borrowing from private to federal lenders, primarily the Farmers Home Administration. FmHA makes and guarantees loans to family farmers who are unable to obtain credit from other lenders at reasonable rates and terms. As the financial condition of farmers and their lenders deteriorated, FmHA's debt increased from \$6 billion in 1978 to \$28 billion in 1985.

In assessing FmHA's financial condition, GAO found that while the total farm debt doubled in the past 10 years, FmHA's share of the debt grew by over 400 percent. GAO also reported that FmHA's growing loan portfolio was increasingly at risk,

since almost half of its loans were owed by borrowers in extreme financial difficulty. For example, FmHA borrowers were \$8.5 billion behind in payments on loans having an outstanding balance of about \$18.6 billion. Almost 70 percent of FmHA's loans were delinquent. On the basis of GAO's work, FmHA revised its loan servicing policy to avoid making an estimated \$2.4 billion in uncollectible loans for fiscal year 1986. Future GAO work will address FmHA's progress in fulfilling its mission in an era of financial stress.

Percent of Total Farm Debt Held by Lenders as of December 1985



Data Sources: *Commodity Credit Corporation, Farm Credit Administration, Federal Reserve Board, Economic Research Service, FmHA, and the American Council of Life Insurance



“ An underlying cause of the very serious problems in farm credit, and in agriculture generally, is continued worldwide surplus production. ”

Brian P. Crowley
Senior Associate Director for Food and Agriculture

Foreign Aid: How Good Are the Controls?



"In reaction to tight budgets and alleged corruption, the Congress is increasingly concerned about the accountability and control over the use of foreign assistance funds."

Joan M. McCabe
Associate Director for Security and International Relations

With U.S. economic and military aid to foreign countries amounting to \$14.6 billion in fiscal year 1986, Congress has become increasingly concerned over reports that some of this money is being diverted or misused. This issue is particularly critical for maintaining public confidence in U.S. foreign assistance programs at a time when domestic programs are feeling the pinch of deficit reduction efforts. To help Congress grapple with the political and economic aspects of foreign aid, GAO continued to provide its analyses of the programs which administer this assistance. During 1986 GAO focused particular attention on aid to Central America and the Philippines.

■ Aid to the Nicaraguan Contras

The possible misuse of U.S. humanitarian aid to the Nicaraguan Contras was an important issue in 1986. In authorizing funds for the Contras, Congress required the President to establish appropriate procedures to ensure that the funds were not diverted, bartered, or exchanged for other than humanitarian purposes. In response to a congressional request, GAO monitored compliance with this provision and found that the State Department did not have sufficient controls to ensure that funds were used as intended by law. As far as GAO could determine, most transactions could not be fully tracked or verified.

GAO reported that the State Department had limited ability to verify purchases or delivery and receipt of

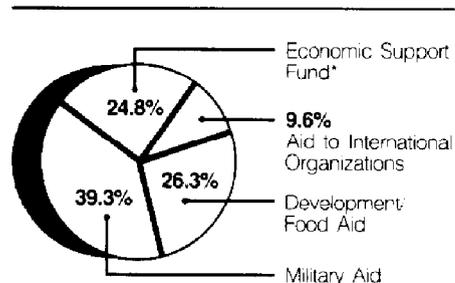
items, largely due to the political climate in Central America which prevented the department from establishing management operations in the region. As a consequence, the State Department had made some payments based on false receipts, and some funds were used to purchase ammunition and grenades. GAO's testimony on this program was used extensively during congressional deliberations on additional aid to the Contras.

■ U.S. Assistance to the Philippines

Congressional concern over the possible misuse or diversion of U.S. aid led a GAO team to the Philippines to examine whether existing controls could ensure that aid to this country was being used properly. GAO had previously questioned the practice of transferring U.S. dollars to other countries without adequate controls. Because the dollars often are commingled with other receipts in a country's general fund, they lose their identity and cannot be traced to determine how they are spent. Since this was how some U.S. aid to the Philippines was being treated, GAO alerted Congress to the potential for misuse of these funds.

Specifically, GAO could not determine how \$226.6 million in aid had been used because these funds were lumped together with the country's foreign exchange assets, earned

**Foreign Assistance Appropriations,
FY 1986: \$14.6 billion**



*Finances balance of payments support, commodity import programs, and capital or development projects

Data Source: Agency for International Development

through trade and other sources. Since the funds were not separated from other U.S. dollar holdings, it was not possible to determine how the assistance had been used.

GAO also assessed whether private organizations, such as voluntary agencies, could administer a greater proportion of U.S. economic assistance to the Philippines. GAO concluded that although the potential exists for increasing aid distributed by such organizations, the U.S. government needs to exercise caution in doing so because of certain constraints—for example, the inability of some organizations to handle greater funding because of limited financial management capability.

In another category of assistance, GAO found that U.S. military aid to the Philippines had in some cases been used unwisely and wastefully. For example, U.S. military aid was used to buy a telecommunications

system that was ill-suited to the recipient's ability to operate and maintain it. Although the U.S. government had taken steps to correct some of the problems, GAO reported that several important issues relating to the control and use of this aid should be considered in shaping future military assistance to this country.

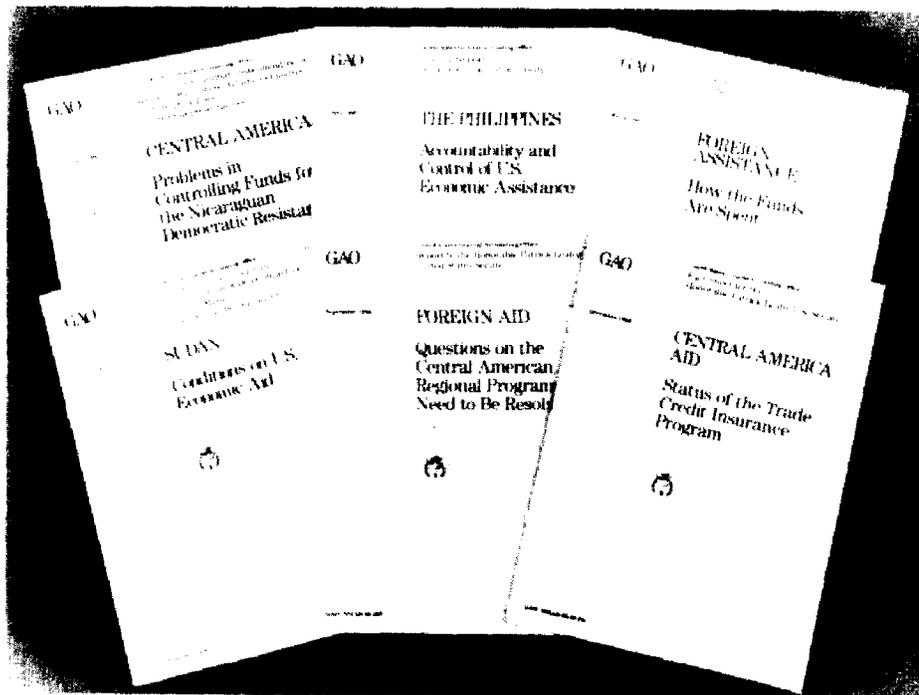
Foreign Aid Controls

Many questions still remain about how much control over foreign aid is appropriate and practical, considering the economic, political, and security objectives of both the U.S. and the recipient countries. GAO's reviews of foreign aid controls in Liberia and Indonesia, an overall study of controls and accountability over major U.S. economic assistance programs, and a review of Defense Department controls over foreign military sales credits will further explore the intended and actual use of U.S. aid and the effectiveness of foreign aid controls.



“
Cash transfers have increased dramatically over the past several years. Congress is concerned about the adequacy of controls and the use of these funds.
 ”

Joseph E. Kelley
 Associate Director for Foreign Economic Assistance



Health Care: Balancing Quality and Cost



“Achieving high-quality care at an affordable cost is a key domestic issue and the underlying theme of our health work.”

Michael Zimmerman
Senior Associate Director for Health Financing Programs

Each day over \$1 billion is spent on health care in the U.S., with the federal government picking up 29 percent of the bill. National health care costs will continue to rise steadily in the foreseeable future, outpacing economic growth and adding to the deficit. Responding to budget-cutting pressures, Congress and the Administration are trying to make the nation's health care system more competitive and cost conscious; however, cutting costs also raises the concern that access to high-quality health care may be jeopardized. GAO approached the health care issue in 1986 by identifying cost-saving actions and helping Congress assess the quality of the care provided under federal programs.

■ Identifying Cost-Saving Opportunities

Every year GAO identifies numerous ways to save money on federal health programs without reducing the quality or availability of care. In 1986 congressional actions taken on GAO's suggestions are expected to result in annual savings of over \$750 million. These actions include closing the loophole that allowed self-insured health plans to avoid paying for Medicaid recipients' care, authorizing the Veterans Administration and Department of Defense to collect from third-party insurers for the treatment costs for conditions not related to military service, restricting Medicare fees paid to physicians for

certain high-cost services, and helping ensure that Medicaid pays for expenses only after liable third parties have paid their share.

GAO also recommended reducing Medicare payments to reflect changing hospital practices and the fact that enrollees in health maintenance organizations generally need less medical care than anticipated. In addition, GAO suggested options for Congress to consider in restructuring Medicare payments to hospitals. These options were designed to help ensure beneficiaries' access to quality care while preserving the hospitals' long-term financial well-being. Finally, GAO questioned the tax-exempt status of Blue Cross and Blue Shield health plans and suggested criteria for Congress to use in granting favorable tax treatment to health insurers. Congress revoked the plans' blanket tax-exempt status and incorporated GAO's suggested criteria in its recently enacted tax reform legislation.

The federal government spends over \$20 billion annually on programs to provide health care directly to beneficiaries. Ongoing GAO efforts to address the effectiveness of these programs include analyses of VA's plans for allocating medical resources to various regions of the country, DOD's plans to reconstruct multimillion-dollar medical facilities, and the possibility of DOD's charging nonactive military beneficiaries for outpatient services.

Responding to public and congressional concerns, GAO is examining DOD's and VA's systems for ensuring delivery of high-quality medical care.



■ Ensuring Access to High-Quality Health Care

GAO is an active participant in the continuing debate over whether, in an increasingly cost-conscious environment, the quality of health care is being safeguarded. GAO found several problems with the way Medicare's prospective payment system affected the quality of care available once an individual is discharged from the hospital, but concluded that not enough information was available to assess the effects of the payment system on post-hospital care. As a result, Congress introduced legislation in 1986 requiring Medicare to establish better ways to generate the necessary information.

Another GAO study found that hospital planners were having problems arranging for appropriate patient care after hospital discharge and that Medicare's prospective payment system was aggravating the situation. In a broader review, GAO is exploring methods for measuring and monitoring the quality of care and for integrating quality assurance systems into the evaluation of the Medicare and Medicaid programs.

In response to public and congressional concerns, GAO is examining DOD's and VA's systems for ensuring

that high-quality medical care is delivered to program beneficiaries. GAO also testified on how the licensing and certifying of health care providers is monitored, reported on what preventive measures are underway to curb medical malpractice, and is examining how patients are protected from accidents and injury while in the hospital.

GAO also contributed to two other health care quality issues. First, GAO suggested legislative remedies to help assure that U.S. graduates of foreign medical schools are properly trained before being licensed to practice medicine in the United States. As a result of GAO's work, several states have turned their attention to addressing the medical training issue. Second, GAO asked Congress to consider legislation that would keep physician incentive plans from compromising the quality of care provided to Medicare beneficiaries. At the end of the fiscal year, Congress was considering legislation that would restrict physician incentive plans in line with GAO's suggestions.

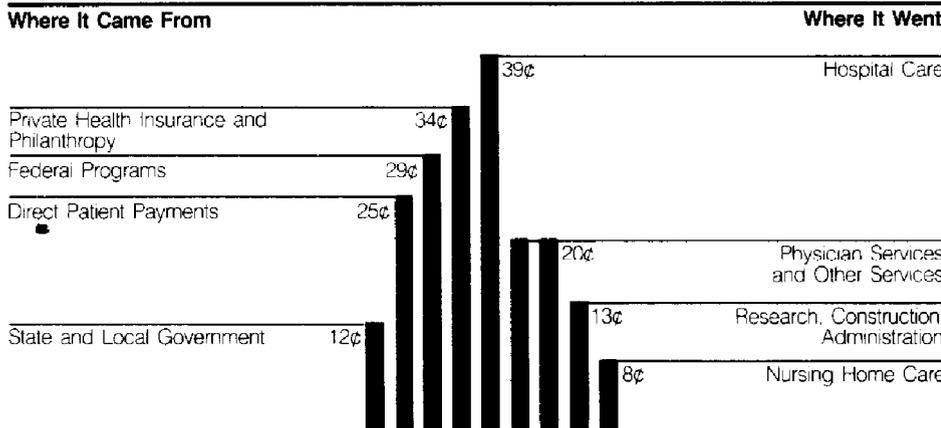
GAO is continuing its work on the issue of health care quality with a series of reviews designed to assist Congress in dealing with the national medical malpractice problem.



“
Currently there is no coordinated national policy that promotes both adequate and efficient long-term care health services for our frail elderly population.
 ”

Eleanor Chelitsky
 Director of Program Evaluation and Methodology

The Nation's Health Dollar, 1985



Data Source: Department of Health and Human Services

Managing the Government: A Formidable Challenge



“Budgetary reform, improved accountability, and better financial management are necessary for improved governmental operations and decisionmaking.”

Frederick D. Wolf
Director of Accounting and Financial Management

The management of government seldom receives the attention it deserves until something goes wrong. When a space shuttle explodes, when tax refunds are inordinately delayed, when exorbitant charges in defense contracts are exposed, the nation voices concern about how its government is being managed. Often asked to investigate such problems after the fact, GAO is also leading efforts to ensure that the financial and other management systems are providing reliable and timely information for decisions and that effective management controls are providing a sound foundation for a well-managed government.

■ Furthering Sound Financial Management

One of the most formidable challenges facing federal officials is managing the government's finances. GAO has advocated a major overhaul of the financial management structure to promote effective government decisionmaking and begun work leading toward the production of meaningful government financial statements. In concert with the Office of the Auditor General of Canada, GAO also has studied the needs of major users of government financial data.

In cooperation with GAO, the General Services Administration in 1986 achieved notable progress toward meeting the federal requirement that each department and independent agency produce annual financial statements. This past year, GSA produced financial statements of a quality which allowed for an independent

audit. GSA's fiscal year 1985 annual report, which included GAO's opinion on the agency's financial statements, represents a milestone in providing Congress, the Administration, and other users with credible information on the agency's financial operations. Interestingly, the federal government has required audited financial statements from the private sector since 1934, and state and local governments have since followed this example by preparing comprehensive financial statements. In 1984 the Single Audit Act required that all major state and local government financial statements be audited to better emulate the success of the private sector in financial management.

Although GSA's effort was laudable, GAO's examination of the agency's financial statements disclosed some weak links in internal controls. For example, GSA's Federal Telecommunications Fund showed a \$21-million liability that could not be substantiated; its Automatic Data Processing Fund lost control over prompt customer billing services, which resulted in special billings of over \$8 million to correct the problem; and detailed accounting records for GSA assets were short by over \$711 million when compared to the total claimed by control records.

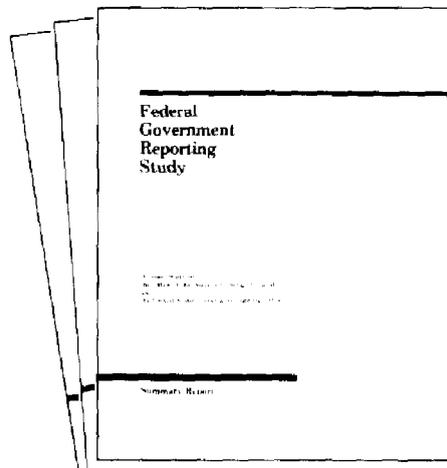
GAO also continued expanding its financial audits of other government entities in 1986, identifying opportunities for reducing costs, strengthening internal controls, and improving financial reporting. For example, as a

result of GAO's audit, the Federal Savings and Loan Insurance Corporation adjusted its 1985 financial statements to show an additional \$3.5 billion in estimated losses related to failed or troubled savings and loan institutions. Another government corporation, the Federal Deposit Insurance Corporation, also followed a GAO suggestion by recognizing a loss on the poor-quality loans and other assets acquired in assisting Continental Illinois National Bank and Trust Company of Chicago. GAO's 1986 audits of the Export-Import Bank and the Commodity Credit Corporation, on the other hand, disclosed that their financial statements still do not reflect the significant losses that have been incurred or are likely to result from problem foreign loans or insurance claims. Not recognizing these operating losses significantly understates the cost of Export-Import Bank and Commodity Credit Corporation programs.

To determine how best to meet the needs of those who use government financial information, GAO and its Canadian counterpart, the Office of the Auditor General, worked together to produce the Federal Government Reporting Study—a groundbreaking effort that included developing prototypes of government financial reports for the United States and Canada.

As part of this study, each country surveyed the needs and views of many likely users, including legislators, government planners and managers, economists, corporate users, lenders, citizens, media, and special groups. Nearly all of these users believed that a comprehensive but concise financial report of the entire federal government would be extremely valuable. Although the Department of the Treasury has published an unofficial consolidated financial report for the past 10 years, much of the information presented is estimated and compiled on an ad hoc basis.

Much remains to be accomplished before consolidated financial statements of the entire federal government can become a reality. GAO is continuing to address several unresolved accounting and reporting issues with the help of experts from the accounting profession and the federal government. Since federal agencies urgently need to upgrade their financial systems in order to prepare summary-level financial statements, GAO has developed guidelines that outline the key steps required for improving these systems. Once these steps are accomplished, an annual financial report of the entire government could become an official document of the Department of the Treasury.



■ Strengthening Management Controls

As part of its effort to strengthen financial management, GAO completed its third annual review of federal agencies' internal controls and accounting systems under the Federal Managers' Financial Integrity Act of 1982. GAO's review disclosed that while agencies have extensive efforts underway to strengthen their systems and report correcting many problems, progress remains slow. Resolving these problems would result in more efficient and effective delivery



Comptroller General Bowsher and Canadian Auditor General Kenneth Dye discuss the development of government financial statements for the U.S. and Canada.



“
Effectively serving the public hinges upon a renewed emphasis on the basics of good management and devising innovative approaches to securing talent and harnessing technology.
 ”

Gene L. Dodaro
 Associate Director for Financial Integrity and Management Reviews

of government goods and services and increased public confidence in the government's ability to manage its programs and funds.

■ **Building an Effective Management Structure**

Another way GAO is responding to the call for more efficient and effective government is by conducting general management reviews of federal departments and agencies. Completed management reviews of the Departments of Labor and Justice and the Defense Logistics Agency have resulted in improved operations in all three organizations.

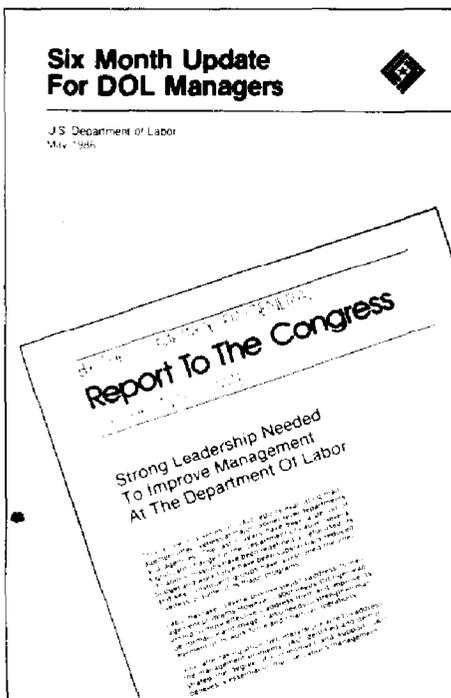
Labor, for example, is developing a new management system in response to GAO's recommendations and has already made substantial progress in areas such as mine health and safety inspections, human resource planning, information resources management, and accountability for financial controls. As a result of GAO's work, Labor is developing new policies and procedures for 102 specific corrective actions to be implemented between October 1985 and October 1988. Labor issued a 6-month report to its managers in May 1986 outlining management improvements made to date and actions remaining to be taken. Labor also asked GAO to assess its accomplishments.

GAO's work also contributed to actions taken by the Department of Justice to strengthen its central management capabilities, which included developing a management and productivity plan to guide budget decisions. Responding to GAO's observations, the Defense Logistics Agency also initiated a number of corrective actions, such as establishing better controls to address supply and financial management problems potentially involving billions of dollars.

Management studies of the Social Security Administration, the Department of Transportation, the Internal Revenue Service, the Environmental Protection Agency, and the Defense Reserves and National Guard were also underway in 1986. In addition, GAO is assessing the efforts made by the Office of Management and Budget and other central management agencies to strengthen federal management. The results of these reviews are expected to identify issues that will need to be addressed by the next administration.

“
I value the insights and recommendations of the GAO, and their objective measurement of our progress.
 ”

William E. Brock
 Secretary of Labor



GAO at Work

When the General Accounting Office was created 65 years ago, it was little more than an offshoot of the Treasury

Department's Division of Bookkeeping and Warrants. For its first two decades, GAO's work consisted mainly of verifying financial transactions and determining the legality of federal expenditures. Its staff of 2,000 employees—mostly clerks—performed detailed audits of individual vouchers at a central headquarters in Washington, D.C.

In the aftermath of World War II, however, a new kind of audit emerged that irreversibly altered the nature of GAO's work. The proliferation of fiscally undisciplined government corporations prompted legislation in 1945 asking GAO to examine the corporations' financial operations. This, by necessity, diminished GAO's voucher audit work; instead, the office began shifting its emphasis to financial management issues. Unlike the voucher audits, much of this work was performed by accountants and business school graduates at the site of the corporation under review. These audits were the forebears of the evaluation work GAO does today.

Since 1951, when GAO moved from the historic Pension Building to its current headquarters, the agency's work has become broader and more sophisticated. As the problems facing the nation's lawmakers became more complex, GAO responded by developing new levels of expertise and embarking on new types of audit and evaluation work. Today, in addition to traditional financial audits and economy and efficiency reviews, GAO's work ranges from economic analysis and econometric modeling to actuarial studies and program evaluations. At any given time GAO has over 1,000 audit and evaluation assignments underway. Among its professional staff are economists, accountants, engineers, environmentalists, computer scientists, and public administrators.

One of GAO's strengths is its ability to go where the programs, contractors, or recipients of federal funds are located, examine source documents, and talk to the people directly involved. GAO maintains 15 regional offices in the continental United States and 80 audit sites located in federal agencies. In addition, work on international issues was performed in 1986 by staff stationed in Honolulu, Hawaii; Frankfurt, West Germany; and Panama City, Panama. During fiscal year 1986, GAO performed assignments in 60 countries.

Although GAO has come a long way since its voucher-auditing days, its evolution is not complete. In a rapidly changing world, GAO continues to explore new ways to help Congress face future challenges. Historian Frederick C. Mosher reflected this thought in his definitive work on GAO: "... the GAO is still changing today, and the direction in which it moves in the future will affect the welfare of the American people and their government."



GAO's former headquarters was the historic Pension building.



GAO testified 149 times before House committees, 44 times before Senate committees, and 4 times before joint committees. This year's 197 hearings represent an increase of 68 percent over 1985's total.



GAO's toll free hotline has received some 74,000 calls during its 7-year existence.



The Comptroller General's consultant panel, many of whom are former cabinet members, advise senior GAO management on a broad range of issues at their semiannual meetings.

Working Toward the Future

GAO's unique audit and evaluation work exposes its staff to a breadth of activities unmatched in other federal agencies. IRS service centers and the Houston Space Center, Wall Street and welfare offices, hospitals and housing projects—all provide work settings for the staff on location.

Equally unique among federal agencies is GAO's opportunity to affect government operations and budget decisions. Throughout the audit and reporting processes, GAO makes recommendations that result in more efficient, economical, and effective operations and delivery of services. To ensure that appropriate actions are taken on its recommendations, GAO maintains an aggressive follow-up system.

GAO's legal work can also affect operations throughout the government. The opinions and decisions it provides to Congress, federal agencies, and individuals involve virtually every sector of federal activity and address issues ranging from allowable use of appropriated funds to the proper administration of the government's procurement system.

To continue meeting the challenges of this work, GAO strives to enhance its productivity and modernize its operations. Fiscal year 1986 was a successful year: the number of reports issued increased by 45 percent, financial accomplishments identified grew by 64 percent, and the number of times testimony was presented was up by 68 percent.



GAO's primary goal is to serve Congress' need for accurate, objective, and timely information.

In 1986 GAO created a 5-year plan for developing the data processing capacity needed to perform agency operations. It also launched pilot projects to test a shared-resources system under which midrange computers would handle assignments too large for microcomputers and too small for mainframes. In addition, acquisition of new microcomputers in 1986 continued to reduce the staff-to-equipment ratio, which is currently at three to one.

Under its operations improvement program, GAO had over 100 projects underway in 1986. Based on similar initiatives in the private sector, GAO's program focuses responsibility on individual units to assess their operations to determine better ways to do their work. Projects dealing with congressional responsiveness resulted in accelerating the process for commenting on bills, streamlining the planning process to accommodate the high volume of congressional requests, and improving the ways we use to reach agreement on how to best carry out congressional work.

GAO continued to develop alternatives to traditional reports. Briefing reports and fact sheets, developed as a faster means of officially communicating information to congressional requesters, were issued for the first time in fiscal year 1986. GAO also continued its use of videotapes to support testimony at congressional hearings.

GAO employs professionals in such fields as economics, management, accounting, medicine, nuclear engineering, the environment, social sciences, information systems, and computer science.



Senator John Warner is the guest speaker at GAO's awards ceremony.



GAO rewards its high achievers at the annual awards ceremony.



The Comptroller General established GAO's Office of Affirmative Action Plans in 1986 to "weave . . . EEO policy into the fabric of our day-to-day operations."



GAO employee councils provide communication channels between senior management and agency staff.



GAO staff prepare video computer graphics for use in congressional briefings.



GAO's modern training facility provides staff with the flexibility to select and individually schedule job-related training or self-enrichment activities.



In 1986 GAO's executive education program trained senior managers in such technical areas as advanced data collection and analysis strategies and evaluation and design methods.

■ Assisting the Congress

GAO's primary goal is to serve Congress' need for accurate, objective, and timely information. More than 78 percent of the work done by GAO's audit and evaluation staff in fiscal year 1986 entailed responding to congressional committee and member requests and performing audit activities legislatively mandated by Congress. The rest of GAO's audit and evaluation work consisted mainly of assignments generated from GAO's planning process in close coordination with committees, members, and staff.

During the past year, GAO also responded to over 250 requests for legal opinions and advice from committees and members of Congress. For example, GAO provided Congress with an analysis of the legality of the Defense Department's activities in Honduras, alerted Congress to the constitutional issues raised by proposals to implement a drug testing program for federal employees, and testified on the legality of former Special Assistant to the President Michael Deaver's representation of Canada in the acid rain controversy.

GAO also assists Congress by assigning staff to work directly for House and Senate committees. In 1986 GAO staff assisted committees in such activities as investigating the pricing of spare parts by the military service, helping draft legislation for the new civil service retirement system, and researching various environmental issues. Details on GAO staff assigned to congressional committees during fiscal year 1986 are included in a separate appendix to this report that is available upon request.

Requests for the 1986 GAO Annual Report should be sent to:
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Telephone 202-275-6241

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