

SECTION I

Management's Discussion and Analysis



The consolidated financial statements of the U.S. Government Printing Office (GPO) were prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. GAAP also requires that accounting principles used be applied in a consistent manner with that of the previous year.

The principal consolidated financial statements report the financial position and the results of operations of the Agency pursuant to the requirements of 31 U.S.C. §3515(b). The principal consolidated financial statements were audited by an independent external auditor selected by the Public Printer in accordance with 44 U.S.C. §309(e).

The consolidated financial statements and reports are prepared from the GPO's financial management system. Transactions are recorded on the accrual basis and are within budgetary limitations established to facilitate compliance with legal constraints and controls over the use of Federal funds. GPO's annual financial statements and accompanying notes provide information on the Agency's financial position, results of operations, changes in net position, and disclose all significant events and economic affairs controlled by GPO, in conformity with applicable laws, regulations, standards, and policies relevant to financial reporting.

GPO is committed to maintaining strong financial systems and internal controls to ensure our accountability, integrity, and reliability. Our internal controls are designed to provide reasonable assurance that obligations and costs are in compliance with applicable laws and regulations; funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and revenues and expenses are properly recorded and accounted for to enable the GPO to prepare reliable financial reports and maintain accountability over assets.

GPO Instruction 825.18A *Internal Control Program* effectively adopts the internal control standards and assessment methodology used by the Executive Branch. GPO managers regularly conduct vulnerability assessments and internal control reviews of GPO's programs, operations, and other activities. The GPO Inspector General monitors the program and keeps the Public Printer informed of the progress by management. The GPO Internal Control

Program has strengthened management controls and improved the economy, efficiency, and effectiveness of GPO's programs, operations, and other activities.

GPO's Mission

For over 140 years, GPO has been *keeping America informed*. GPO accomplishes this mission by assisting all three branches of the Federal government in the cost-effective creation and replication of information products and services, and by providing effective and economical public access to Government information. GPO is one of the Nation's oldest and most venerable agencies, within which the official version of every great American state paper since President Lincoln's time has been produced. Many of the Nation's most important information products, such as the *Congressional Record* and all other legislative information supporting the U.S. Senate and House of Representatives, are produced at the GPO's main plant, a 1.5 million square foot complex that is the largest information processing, printing, and distribution facility in the world. Working in partnership with the American printing industry, the GPO also maintains a pool of private sector vendors nationwide to produce print and other information products for the Federal government.

Operations

The public printing and documents chapters of Title 44, *United States Code*, require GPO to fulfill the printing needs of the Federal government and distribute Government publications to the public. GPO activities are financed through a Revolving Fund, which is reimbursed by payments from customer agencies, sales to the public, and transfers from the Congressional Printing and Binding Appropriation and the Superintendent of Documents' Salaries and Expenses Appropriation. These two annual appropriations are used to reimburse the Revolving Fund for costs incurred while performing congressional work and fulfilling statutory requirements associated with the distribution of Government publications, respectively. Reimbursements to the Revolving Fund from the appropriations are recorded as revenue, and generally, unexpended appropriations are returned to the U.S. Treasury after 5 years have passed.

There has been a steady decline in demand in recent years for traditional printing within the Federal government. All

major programs within GPO have been impacted by this dynamic: less printing is produced and procured, and fewer printed publications are sold. The GPO workforce reflects this decrease in demand as well, with the number of employees on the rolls decreasing from 8,500 employees in fiscal year 1976 to 3,019 at September 30, 2002.

GPO's Plant Printing Operations produces the *Congressional Record* and all other documents relative to the legislative process. However, neither Congress nor GPO may be able to accurately forecast the printing workload that may be required to support and record legislative proceedings. In those years where congressional printing requirements exceed the funding provided, GPO uses its authority to temporarily fund the shortfall through the Revolving Fund. In the majority of years, funding has been adequate. At September 30, 2002, no unfunded shortfalls were projected.

The GPO Printing Procurement Program continues to be the best acquisition service for the Federal printing dollar. The Program offers the advantage of a centralized staff of technical experts to ensure that the customer agency's printing requirements are met at the lowest cost. Customer orders are offered, via the competitive bid process, to the commercial printing industry to obtain the best offer. GPO's commercial printing contractors are capable of producing over 350 types of products. GPO's Printing Procurement staff has fulfilled the needs of its customers for timely and cost effective printing, as shown by their on-time delivery and quality acceptance rate performance measures. This program, as with other print-on-paper operations, must continually look for ways to reduce costs and increase efficiency in an environment of declining demand. GPO is looking to streamline the printing procurement process by developing requirements for a web-based, simplified purchase agreement application, which will allow customer agencies to electronically transmit their specifications to GPO. GPO will be able to rank potential contractors and electronically place the order with the contractor that provides the best value for the Federal government. Contractors will also be able to electronically receive orders and bill GPO for the finished product.

The GPO Sales of Publications Program has experienced a significant decrease in sales activity and the number of titles available for sale. This decline corresponds with advances in

electronic information technology, such as the world-wide-web, and increases in electronic publishing by customer agencies. The Sales of Publications Operations 2002 revenue of \$38 million declined from fiscal year 2001 revenue of \$42.4 million. This continues the downward trend that began in fiscal year 1995, when revenue was \$80 million. Years of diminished revenue and virtually fixed labor costs have caused the Sales Program to sustain significant annual operating losses. This is important in that the Sales Program receives no appropriated funds, and must recover costs to continue operations. In order to reverse this trend, certain initiatives have been undertaken over the past few years.

One element of the Sales Program, the GPO Bookstores, generating about 20 percent of the Program's revenue, has also been in a downward trend. In order to address this problem, the Superintendent of Documents closed several bookstores in fiscal year 2001 which were unable to recover operating expenses. This effort was continued in fiscal year 2002, with the closing of the Birmingham and Chicago bookstores, with plans to close additional stores in fiscal year 2003.

Other actions taken in recent years to improve operating results include efforts to downsize, through attrition, as well as efforts to consolidate space to reduce overhead costs. Sales Program customers are also being encouraged to do business with the U. S. Government Online Bookstore as a means of providing more efficient customer service while lowering administrative and staffing costs. To generate additional revenue, efforts are being intensified to identify and obtain additional Government publications for sale to the public. Beginning in January 2003, the new Superintendent of Documents began evaluating the Sales Program to identify additional ways to generate revenue and reduce operating costs.

The Salaries and Expense Appropriation provided by Congress funds the administration of the Federal Depository Library Program (FDLP), the Cataloging and Indexing Program, the By-Law Distribution Program and the distribution component of the International Exchange Program of the Library of Congress. GPO's cataloging and locator services have emerged as a critical element in the FDLP's provision of public access to U.S. Government publications. Long recognized as the National authority for

cataloging Government publications, FDLP is also recognized as a center of excellence in other aspects of managing an electronic collection for permanent public access.

The transition to a predominantly electronic FDLP began in 1996 at the direction of Congress. In the fiscal year 2002 appropriation, GPO received general approval from Congress to acquire a commercial off-the-shelf Integrated Library System (ILS). A contract has been negotiated with a library automation consulting firm to analyze functional requirements to determine available systems best suited to meet the Government's needs. Once operational, the ILS public cataloging interface will offer enhanced information identification and location capabilities to all users. Depository library staff will, for the first time, have direct access to the processing and product status information, satisfying the majority of FDLP customer inquiries.

Fiscal Year 2002 Financial Results

The comprehensive and audited principal financial statements of the GPO include all economic events impacting the Agency, including items not recoverable through reimbursable rates. In fiscal year 2002, GPO's estimated liability for worker's compensation claims increased from \$67.7 million to \$91.2 million. GPO is required to include the actuarial estimate of Federal Employees' Compensation Act (FECA) liability and the accrued FECA expense in its consolidated financial statements in order to comply with applicable accounting standards.

GPO does not include the actuarial estimate of the future cost of workers' accident compensation in the computation of rates and prices used to charge Congress, Executive Agencies, or the public, and does not include it in its requests for annual appropriations. GPO has included in its rate structure and prices only the actual cost of accident compensation paid to the Department of Labor (DOL) for the period reported. The future costs of GPO's accident compensation will be paid from revenues earned in the year the expense is paid.

Fiscal year 2002 total operating revenues were \$702.3 million compared with \$712.4 million in the prior year, a decrease of 1.4 percent. Total operating expenses, before the increase in the actuarial estimate of the workers' compensation and the impairment loss in 2001 discussed

below, were \$717.5 million compared with \$714 million in fiscal year 2001. The net loss of the Revolving Fund before other operating expenses was \$15.2 million compared to a net loss in the prior year of \$1.5 million.

The consolidated net loss for fiscal years 2002 and 2001 were \$38.8 million and \$45 million, respectively. The actuarial estimated liability for long-term FECA benefits increased by \$23.6 million during fiscal year 2002, following an increase of \$31.4 million in fiscal year 2001. Also, in fiscal year 2001, GPO recorded a one-time impairment loss of \$12 million for a major systems acquisition project that was terminated (See Note 16).

The most significant changes in operating results occurred in In-House Printing Operations, Purchased Printing and the Sales of Publications Programs. In-House Printing Operations improved bottom-line results by \$608,000, although revenue declined by \$5 million, from \$187 million in fiscal year 2001 to \$182 million in fiscal year 2002. Decreasing revenues were offset to a greater degree by expenses which declined by \$5.6 million to \$179.3 million in fiscal year 2002.

Purchased Printing reported a net loss of \$3.8 million in fiscal year 2002 compared to net income of \$3.7 million in the prior fiscal year. This was a result of a decrease in revenues from \$474.3 million in fiscal year 2001 to \$470.3 million in fiscal year 2002, and an increase in expenses of \$3.5 million.

The Sales of Publications continued to decline in fiscal year 2002, with a net loss of \$16 million compared to a \$7.6 million loss in the previous fiscal year. Revenues showed a dramatic drop from \$42.4 million in fiscal year 2001 to \$38 million, or 10.4 percent, in fiscal year 2002. Expenses in fiscal year 2002 increased by \$4 million to \$54 million from \$50 million in fiscal year 2001 due primarily to a \$3.4 million increase in surplus publications expense.

In fiscal year 2001, the GPO Revolving Fund received \$6 million in supplemental funding, under Public Law 107-20, to replace the air conditioning and lighting systems. During fiscal year 2002, these funds were fully obligated, with about 80 percent set aside for the air conditioning project, and 20 percent to upgrade lighting fixtures. As of September 30, 2002, \$192,000 was expended, primarily to pay for engineering design studies for the new systems.

In fiscal year 2002, the GPO Revolving Fund received \$4 million in Emergency Response (Homeland Security) funding under Public Law 107-117 to enhance security measures at the central facility and provide backup sites for both production operations and the Superintendent of Documents *GPO Access* web-site and support functions. During fiscal year 2002, GPO obligated \$2.6 million of the available funds and expended \$1.7 million. GPO plans to obligate the balance in fiscal year 2003, including about \$1 million for the *GPO Access* mirror site.

As a result of these activities GPO recorded Appropriation Revenue of \$1.9 million from Appropriations made to the Revolving Fund. This represents the amount expended by GPO for Homeland Security and Air Conditioning and Lighting Improvements during the year. Accounting standards require the recognition of appropriation revenue at the time the appropriated funds are spent, while acquired goods and services are either depreciated (if a capital asset) over a number of years, or expensed within the period.

Performance Measures

The Government Printing Office gauges its overall efficiency and effectiveness using performance measures. Generally, these performance measures are based on established standards that are compared against actual performance for each fiscal year. The following sections discuss the major operating performance measures and financial performance measures for the Agency.

Operating Performance Measures

OVERTIME MANAGEMENT

GPO makes an ongoing effort to minimize overtime hours. In fiscal year 2002, overtime hours decreased to 189,000 hours from 198,000 hours in fiscal year 2001, or 4.5 percent. The cost of overtime in fiscal year 2002 increased by less than \$5,000 from fiscal year 2001's level. GPO successfully achieved its goal for fiscal year 2002, with actual overtime hours worked well under the upper limit goal of 200,000 overtime hours established at the beginning of the year. Our goal for fiscal year 2003 will be to remain under 200,000 overtime hours.

PRODUCTION CHARGEABLE HOURS

Chargeable hours decreased to 570,000 in fiscal year 2002 from 652,000 in fiscal year 2001, a decrease of 82,000 hours, or 12.6 percent, while the number of employees available for work increased by only .4 percent. The results for 2002 met GPO's goal of achieving sufficient chargeable hours necessary to break-even. GPO's fiscal year 2003 goal is to have enough chargeable hours to achieve break-even in Production Operations. Due to the mix in hourly rates charged for the various printing processes, a specific chargeable hour target cannot be established.

CONGRESSIONAL RECORD DELIVERY

The *Congressional Record* is an important tool and product of the legislative process, with its timely production a large part of GPO's mission. To gauge GPO's efficiency in providing the *Congressional Record* to Congress, GPO has established a deadline of 9 AM the following day when copy is received in GPO by midnight, regardless of whether the Senate or the House of Representatives is in session. Our actual on-time delivery rate was 83 percent in fiscal year 2002, compared with 77 percent in fiscal year 2001.

ON-TIME DELIVERY OF PROCURED PRINTING

The Printing Procurement Department contracted with commercial printers to ship 142,900 jobs in fiscal year 2002 compared with 147,800 jobs in fiscal year 2001. For fiscal year 2002, GPO's goal was to have at least 95 percent of procured printing orders delivered on schedule and a quality acceptance rate of at least 99 percent. Both goals were met. The goals for fiscal year 2003 remain the same as those for fiscal year 2002.

Financial Performance Measures

CASH MANAGEMENT

Payment Performance — In fiscal year 2002, GPO continued to earn millions of dollars from taking favorable prompt payment discounts offered by contractors for the payment of invoices within the discount period. GPO earned prompt payment discounts of \$6.6 million on purchased printing expense of \$437 million. This represents a discount rate of 1.5 percent, in line with that of the prior fiscal year 1.6. The 1.5 percent discount rate earned exceeded the 1.4 percent goal set for fiscal year 2002. Our goal will remain at 1.4 percent for fiscal year 2003.

Discounts lost increased to \$367,000 in fiscal year 2002 from \$278,000 in fiscal year 2001. The percentages of discounts lost to discounts offered were 5.3 percent and 43.4 percent in fiscal years 2002 and 2001, respectively. We did not achieve our goal set for fiscal year 2002, which was a maximum of 2.5 percent. 2001

Electronic Payments – The use of electronic funds transfer (EFT) payments results in savings for GPO and the Department of the Treasury because paper checks do not have to be produced and processed. In fiscal year 2002, approximately 25,600 monthly payments, or 92 percent, of all GPO payments were made by EFT, compared with 25,500 monthly payments, or 91 percent of all payments in fiscal year 2001. Our goal for fiscal year 2002 to increase EFT payments, as a percent of all payments, to 96 percent was not met due primarily to an increase in the number of small-value refund checks issued to the Superintendent of Documents' Sales Program customers. These checks are not feasibly disbursed via EFT. Our goal for fiscal year 2003 is to increase EFT payments to 93 percent of all payments made.

DEBT MANAGEMENT

Federal Receivables – In fiscal year 2002, GPO billed Federal agencies \$670 million for printing and binding services. Of this amount, \$483.8 million (72.2 percent) was collected using the Department of Treasury's Intra-governmental Payment and Collection (IPAC) system; \$38.4 million (5.7 percent) was from funds residing in Printing and Binding Deposit Accounts maintained by the GPO; and \$11.6 million (1.7 percent) was collected via credit card. These methods enable the collection of funds within 30 days or less, as opposed to the more traditional methods of collection which require the creation and exchange of paper documents.

Total GPO government accounts receivable at the end of fiscal year 2002 was \$16.3 million, compared with \$9.38.4 million at the end of fiscal year 2001. The Department of Defense (DOD), with an average monthly balance of \$5.9 million for billings outstanding for more than 90 days, representing 55.7 percent of all of GPO's delinquent receivables, is GPO's largest delinquent customer. At the end of fiscal year 2002, DOD owed GPO \$768,000 for billed, completed work that was between 31 and 60 days overdue, \$181,000 that was between 61 and

90 days overdue, and \$6.3 million that was more than 90 days overdue. GPO and DOD have, in recent years, used Treasury's IPAC system to simultaneously bill and collect certain DOD invoices for printing and publishing services. This agreement has had a significant impact in reducing GPO's receivables from DOD. As recently as fiscal year 1998, accounts receivable from DOD were \$34.9 million, including \$14.1 million overdue by more than 90 days.

GPO also offers Printing and Binding Deposit Accounts to allow agencies to prepay for their printing. These accounts greatly simplify customer agency accounting and have the added benefit of providing detailed customer account information, via a secure web site, which enables customers to either download or print their transactions. At the end of the year, there were 243 printing and binding deposit accounts valued at \$48.1 million.

Customer agencies have the option of paying for their printing and binding needs by credit card. Credit card usage increased in fiscal year 2002 to \$11.6 million for 14,392 print jobs from \$11.5 million for 12,852 print jobs in fiscal year 2001. The average price per job paid via credit card for the past two years was about \$850, indicating that customers find it a convenient method to pay for small printing jobs.

Possible Future Effects of Existing Events and Conditions

The Executive Branch has been evaluating a proposal to amend the Federal Acquisition Regulation (FAR) in regard to the procurement of printing and duplicating requirements. Implementation of this proposal to decentralize the Federal Printing Program could significantly reduce GPO's workload and associated revenues from Executive Branch customers. Specifically, the Office of Management and Budget (OMB) issued Policy Memorandum No. M-02-07, Procurement of Printing and Duplicating through the Government Printing Office, on May 3, 2002. OMB proposed that agencies of the Executive Branch be allowed to procure their printing and duplicating needs directly from the private sector or from other agencies, including GPO. The proposed amendments to the FAR were published in the Federal Register on November 13, 2002. The public comment period closed on December 13, 2002. The FAR has not been amended as of this date.

During this same time period, the U.S. Congress reaffirmed the statutory requirements for Executive Branch agencies to use GPO for printing through Section 117 of Public Law 107-229 (the Fiscal Year 2003 Continuing Resolution), as amended by Section 4 of Public Law 107-240. On November 13, 2002, the GAO General Counsel issued a legal opinion that agencies are prohibited from using any funds to implement OMB Memorandum No. M-02-07.

Subsequent to all these events, the new Public Printer and the Director of OMB reached an agreement to set aside the contention between the two agencies regarding Federal printing policy.

The Public Printer has invited the Director of OMB to jointly establish the facts about printing and information dissemination, and to devise a Government-wide policy that fits the 21st century.

Fiscal Year 2003 Projections

Congress created the GPO Revolving Fund to finance the business-type operations of the Agency. The Revolving Fund was designed to financially “break-even” by recovering costs through rates and charges to customers for goods and services provided by GPO. The Agency has not met this financial goal since fiscal year 1998. Under the leadership of the new Public Printer, the Agency’s fiscal year 2003 financial performance is projected to improve as a result of management initiatives being taken.

GPO is in the process of reinventing itself to better serve its customers. The new Public Printer has been meeting with Members of Congress, key congressional staff, Federal agency heads, the heads of Federal operations with congruent missions — such as the Postmaster General, Director of the Bureau of Engraving and Printing, and Director of the Mint — the library and information communities, the printing industry, and others to identify customer needs and business opportunities. This input from customers and other interested parties will help determine the future direction of the Agency.

A new organization structure is currently being implemented for GPO that will be more responsive to the needs of customers and employees. The new Public Printer is

in the process of assembling a management team that will have vast business and government experience, and a wealth of industry knowledge. Greater emphasis will be placed on operating GPO in a business-like manner.

The Agency will continue to transform its image as a producer of ink-on-paper products into a provider of digital and multi-media information. As part of the transition, plans are underway to greatly expand the workforce development budget to ensure that employees are empowered with the skills necessary to succeed in the transformation. The funds will be used to emphasize mission-related human capital development, and not simply job-related training.

The Public Printer has requested a \$10 million appropriation to cover the costs associated with necessary workforce restructuring under retirement incentive authority established by law. This investment will enable GPO to manage the size, composition, and skills of the workforce as required by rapidly changing technology. Additionally, the Public Printer is increasing the recruitment of college graduates to obtain the next generation of technical skills needed to take GPO into the 21st century.

Through the new Office of Innovation and New Technology, actions are planned to form associations with industry to explore opportunities for the GPO to assume a leadership position in technological innovation in the digital information era.

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