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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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SEPTEMBER 24, 1980

The Honorable Max S. Baucus
Chairman, Subcommittee on Limitations
of Contracted and Delegated Authority
Committee on the Judiciary
United States Senate



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Dear Mr. Chairman:

Subject: [Library of Congress' Revolving Trust Funds
(FGMSD-80-76)]

This is the second of two letter reports responding to your August 3, 1979, request that we review Federal agency gift funds. The first letter report, "Review of Federal Agencies' Gift Funds" (FGMSD-80-77), contains our analysis of these funds throughout the Federal Government. This report concerns the Library of Congress' use of its gift authority to establish revolving funds. We are reporting on this use separately because of its uniqueness to the Library.

The Library has used its gift authority to establish at least 24 revolving funds which are not specifically approved by the Congress. Together these funds generate approximately \$3.7 million annually in receipts from various activities. The activities include, among other things, a photoduplication service, a recording laboratory, and various publications. The Library's disclosure of these activities in the Federal Budget Appendix is inadequate, and its accounting, budgeting, and reporting of them do not meet prescribed procedures. These factors serve to limit congressional knowledge of the Library's revolving funds.

NATURE OF REVOLVING FUNDS

The general term "revolving fund" designates a fund established by the Congress to finance a cycle of operations through amounts received by the fund. A Government activity can thus finance a businesslike cycle of operations with a revolving fund. Expenditures from the fund generate receipts which, in turn, are earmarked for new expenditures, thereby making the Government activity a self-sustaining enterprise.

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Revolving fund activities tend to escape congressional oversight because appropriated funds are not requested as long as the activity can generate sufficient revenues to match its operating expenses. Thus, the initial authorization of a revolving fund, in many cases, gives the Congress its only chance to scrutinize a revolving fund's effect on an agency's operation.

LIBRARY OF CONGRESS' USE
OF REVOLVING FUNDS

The Library of Congress is currently operating 24 revolving funds, none of which has been specifically authorized by Congress. These revolving funds are not properly accounted for by the Library, nor are the activities financed by the funds fully disclosed to the Congress. In establishing the funds, Library officials relied on the Library's authority to accept and use gifts as the donor intended (2 U.S.C. 160).

Scope of authority has been exceeded

We believe that, with respect to some of these funds, the Library has exceeded the scope of its authority to accept gifts and use them to fulfill the donor's intent. Although under the Library's gift authority a donor may stipulate that his or her gift must be used to fund a self-sustaining activity, this allows the Library only to set charges for the activity that will maintain the amount of the gift. The Library may not, without specific statutory authority, set charges for the activity at such a rate that it expands the fund far beyond the scope of the donor's gift, produces revenue for other activities, or accumulates a substantial surplus.

For example, the Library's photoduplication service began operations with a gift of only \$35,000. Today, it has expanded to a business that employs more than 150 people and has accumulated over \$1 million in reserves. The Library's authority to accept gifts in this case permits it to use the gift to operate a duplication service which produces only sufficient revenues to maintain the \$35,000 gift. That authority does not permit the tremendous expansion in the service that has occurred. The Library should get specific statutory authority to continue operating the expanded service.

Limited budget information
has been provided

In addition, the Library provided only limited information on its revolving activities in the 1980 Budget Appendix. The Congress, along with the executive branch, has the responsibility of overseeing agencies' operations. One tool used by

the Congress to meet its oversight responsibilities is the appropriation process. However, at the time of our review, the Library's annual budget disclosure was inadequate and overly general in that the revolving fund activities were placed under the title, "Gift and Trust Funds, Non-Revolving" (emphasis added) and the narrative description consists of short, general, summary paragraphs that give no detail concerning the revolving fund operations. This caption was changed in the 1981 Budget Appendix to "Gift and Trust Fund Accounts." However, this caption does not reflect the revolving nature of the funds.

For example, revolving fund receipts are classified as "service fees" and the Library's fiscal 1981 Budget Appendix disclosure defines service fees as, "* * * receipts from sales of recordings and photoduplication materials financed from capital originally received as gifts * * *." This is the only mention of the Library's photoduplication and recording activities. There is also no mention of the other activities--numerous although quite small compared to the photoduplication and recording functions--which are operated through the Library's revolving funds. We believe such limited disclosure contributes to a lack of congressional control over these funds.

Some of the Library's revolving funds have been discussed during hearings before the Subcommittee on Legislative Branch, House Committee on Appropriations. The information provided at these hearings, however, has been inadequate to disclose either the questionable authority for the revolving fund operations or the extent such funds have been used to expand the Library's activities. For example, the Library's photoduplication operation was discussed in fiscal 1979 hearings before the subcommittee and was characterized as a non-profit business enterprise established with grant funds. The discussions mentioned that the operation was producing revenue that was used to pay nearly 150 employees, but did not mention the authority for this. Also, the Library said the activity was operating on a nonprofit basis but failed to note that the fund then had a surplus of about \$1 million, after generating enough revenue over its 41-year history to expand a \$35,000 gift into a \$3 million-a-year operation.

Donors have been instructed
to stipulate revolving funds

Another problem we noted with the Library's use of its gift authority is that, at least in two cases, Library officials instructed the donor to stipulate that revolving funds be established. Library officials received a token gift (\$100) from an international film corporation to establish a motion

picture duplicating project fund on a revolving basis and a gift of \$1,500 to establish a revolving fund for the preservation of motion pictures and television film. In both cases, the Library asked the donors to stipulate that a revolving fund be established. While the amounts are small, the ability of the Library to establish revolving funds in this manner allows additional activities to be formed without congressional approval. This, we believe, reduces congressional control over the Library's activities.

Prescribed accounting, budgeting,
and reporting procedures
are not always followed

A final matter of consideration is that the Library does not always follow prescribed accounting, budgeting, and reporting procedures for its revolving fund type operations. At a minimum, for example, financial statements should be prepared for each fund. They are prepared only for the photoduplication service and, since 1976, for the recording laboratory fund. Also, fees generated by revolving funds are generally set to cover costs--not to accumulate a surplus. In contrast with this practice, we found that over a 41-year history the photoduplication service had accumulated a \$1,000,000 reserve. The Library must follow good accounting procedures in the operation of all funds, including those for revolving fund activities.

SUMMARY

In summary, we believe the Library is circumventing congressional control over approximately \$3.7 million in receipts. Such circumvention is occurring because the Library has established at least 24 revolving funds without obtaining congressional approval and without properly accounting for these funds or disclosing their nature in the Budget Appendix.

Library officials generally agreed to correct most of the problems we noted, but pointed out that since 1938 it has been the practice at the Library not to obtain congressional authorization for the establishment of revolving funds started with gifts. Library officials also stated that, even though information provided in the Budget Appendix was limited, the Librarian's Annual Reports to the Congress contained detailed information on these activities.

In several reports in recent years, we have expressed concern over the use of revolving funds because they can be used to avoid congressional control. The Library's use of gift authority to establish revolving funds is yet another example of the problems inherent in the use of these funds.

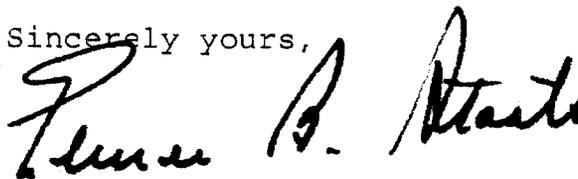
RECOMMENDATIONS

As a result of the findings, we recommend that the Librarian

- request specific statutory authorization for each revolving fund activity currently operated by the Library which generates revenues exceeding the scope of the donor's gift and
- implement all established accounting and reporting rules and regulations governing revolving funds.

At your request we did not obtain official written agency comments on the matters discussed in this report. Unless you publicly announce its contents earlier, no further distribution of this report will be made until 30 days from the date of the report.

Sincerely yours,



Comptroller General
of the United States