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BY THE U.S. GENERAL ACCOUNTING OFFICE  
**Report To The Director,  
Office Of Management And Budget**

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## **Independent Regulatory Agencies Can Reduce Paperwork Burden On Industry**

Over the past several years increased emphasis has been placed on reducing Federal paperwork and, as a result, independent regulatory agencies are attempting to reduce the reporting burden they impose on American businesses. GAO believes opportunities exist to further reduce this burden.

The Paperwork Reduction Act of 1980 should strengthen the reports clearance function and help solve many of the problems that exist today, but the independent regulatory agencies must take additional steps to further reduce the accounting and financial reporting burden on industry.



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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

B-182087

The Honorable David A. Stockman  
Director, Office of Management  
and Budget

Dear Mr. Stockman:

Recently the General Accounting Office completed a review of the progress being made by the Civil Aeronautics Board, Federal Communications Commission, Federal Energy Regulatory Commission, Federal Maritime Commission, and Interstate Commerce Commission in reducing the accounting and financial reporting burden on industries that must follow the accounting rules and reporting requirements prescribed by these agencies.

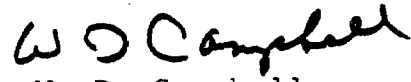
Based on our review, we believe that opportunities remain for these agencies to reduce the accounting and financial reporting burden they impose on industry. We believe the agencies included in our review should: (1) strengthen the reports clearance process, (2) limit the collection of information for others, (3) make better use of graduated reporting, and (4) increase the attention and effort given to record-retention programs. We are addressing these recommendations to you because of your responsibilities in implementing the Paperwork Reduction Act of 1980. Enclosure I provides a detailed summary of our observations as well as our recommendations.

Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs no later than 60 days after the date of the report and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the five independent regulatory agencies included in our review.

Should you have any questions on the contents of this report, we would be glad to discuss them with you or your staff.

Sincerely yours,

A handwritten signature in black ink that reads "W D Campbell". The letters are cursive and somewhat stylized.

W. D. Campbell  
Acting Director

Enclosure

PROGRESS AND REMAINING OPPORTUNITIESTO REDUCE INDUSTRIES' ACCOUNTINGAND FINANCIAL REPORTING BURDENBACKGROUND

In response to a growing concern that the Federal Government must improve the way it collects, uses, and disseminates information, the Paperwork Reduction Act of 1980 (Public Law 96-511) was enacted on December 11, 1980. This is the most recent attempt at controlling Federal paperwork.

The Paperwork Reduction Act of 1980, which took effect on April 1, 1981, strengthens the reports clearance function--one of the mechanisms used to screen the requests for information and to minimize the public's reporting burden. The act also requires each agency to designate a senior official, reporting directly to the agency head, to be responsible for information management activities.

Among other significant provisions, the new law gives the Office of Management and Budget (OMB) authority to review and clear all independent regulatory agency reporting and record-keeping requirements and requests. The General Accounting Office (GAO) is no longer responsible for this.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to evaluate and assess the progress being made by the Civil Aeronautics Board, the Federal Communications Commission, the Federal Energy Regulatory Commission, the Federal Maritime Commission, and the Interstate Commerce Commission in reducing the accounting and financial reporting burden on industries they regulate.

The five Federal independent regulatory agencies were selected because of the influence they have on accounting and financial reporting. Together they regulate a significant segment of American businesses including, among others, airlines, telephone companies, electric power utilities, ocean shipping lines, and railroads.

We made our review primarily at the agencies' headquarters in Washington, D.C., where we interviewed agency employees and key officials. During the review we contacted companies and trade associations selected from the different types of businesses that must follow accounting and financial reporting requirements established by these five regulatory agencies. We interviewed officials of 28 companies and trade associations to ascertain the problems and costs being incurred in reporting financial information and retaining records. Since our sample of industry and trade association officials was not statistically selected, it cannot be

projected to all of the respective industry members. The estimates of how much burden has been or could be reduced were provided to us by agency officials and we did not verify the accuracy of the estimates. Finally, we reviewed current laws, congressional testimony, and agency reports and documents.

### CLEARANCE PROCESS

Our review showed that some independent regulatory agencies are collecting information they neither need nor use. This is supported by the results of studies made by the agencies. Such unneeded information is being collected because most agencies have no effective reports clearance process to screen requests for data.

### Collecting unneeded information

Four of the independent regulatory agencies appointed a task force or similar group to review the agency's definition of the information it needs and to recommend ways to strengthen the collection process. These studies showed that unneeded information was being collected. For example, in January 1979 the Interstate Commerce Commission (ICC) Data Task Force on Financial and Statistical Information recommended actions to reduce regulated industries' reporting burden by more than 1 million hours annually. In February 1981, the ICC Bureau of Accounts estimated that, by implementing many of the task force's recommendations and initiating other actions, they had reduced carriers' annual accounting and reporting burden by approximately 1.1 million hours. They expect other proposed actions to achieve further reductions in carrier burden totaling nearly 300,000 hours annually. 1/

As part of our work at the ICC, we reviewed a major financial reporting requirement for Class I railroads--the annual Form R-1--to determine the need for and use of this data within ICC for regulatory purposes. The Form R-1 contains 80 schedules and the 41 Class I railroads took about 58,000 hours to complete the reports for 1980. We determined that little or no use was made of the data on several of the 80 Form R-1 schedules. The ICC Bureau of Accounts has since reviewed the Form R-1 and is developing a Notice of Proposed Rulemaking to eliminate 26 schedules from the 1981 Form R-1 report.

The Federal Energy Regulatory Commission (FERC) has instituted a continuing validation process to enable the agency to reduce industry reporting requirements. Recommendations emanating from the validation process could ultimately save regulated industries more than 700,000 hours of reporting each year. 1/

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1/We did not verify the agency estimates of burden on industry which has been or could be eliminated.

The Civil Aeronautics Board (CAB) established an Information Planning Project Team in July 1979 whose primary duty was to evaluate the Board's regulatory information requirements as the agency prepares for phaseout by 1984. The team's September 1980 report recommended reductions and revisions to reporting systems that could reduce industry reporting by 40 percent. <sup>1/</sup> As a result of the team's work, 10 reporting schedules have been eliminated and 10 others have been proposed for elimination.

The Federal Maritime Commission (FMC) established the Committee on Paperwork/Information Management in June 1979 to eliminate collection of unneeded information from the public and reduce paperwork at the agency. The committee's mandate was to determine whether the information was obtained in the least costly manner. Domestic offshore carriers and freight forwarders were not included in the committee's review because they were already being studied. The committee used the results of a questionnaire sent to primary users of FMC forms as the basis for reducing the frequency of one report from quarterly to annually. Although the committee could have served as a focal point to assess reporting requirements, its future work plans are indefinite.

The Federal Communications Commission (FCC) did not establish a task force to analyze the collection of information agency-wide. In our work at FCC we found, however, that some Bureaus were examining their collection efforts. For example, the Common Carrier Bureau, which regulates interstate and international communications by telephone, telegraph, radio, and satellite, started a project in August 1980 to examine the reports and information the Bureau requests from regulated companies. At the time of our review, the Common Carrier Bureau had initiated action to eliminate 29 reports.

Agency reports clearance processes are ineffective in assessing information needs

The reports clearance process--intended to be a screening device to preclude the collection of unneeded information--has not worked well at most of the agencies we reviewed. Since agency clearance offices do not effectively challenge the need for information, some unnecessary information is collected.

The reports clearance process required that before independent Federal regulatory agencies create new reporting requirements, they consider whether the information they want to collect is needed, duplicates other requirements, or could be collected through more effective or less burdensome methods. GAO, in the

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<sup>1/</sup>Again, we did not verify the agency estimates of burden on industry which has been or could be eliminated.

role of central clearance agency for independent Federal regulatory agencies, reviewed the justifications for the new requirements. <sup>1/</sup> Approved requests were granted clearance for limited periods, usually 3 years. Continued use of the forms required additional periodic clearances.

GAO regulations for preparing proposed clearance packages were based on the policy established by the Federal Reports Act of 1942, as amended. Essentially, we required justification showing that agencies planned to (1) obtain information with a minimum burden on respondents, (2) eliminate unnecessary duplication, and (3) use the information collected.

Rather than seeing the clearance process as a tool for questioning the need for information, some agencies viewed the process merely as a liaison with GAO to facilitate the approval. In other words, the process involved form rather than substantive analysis. For example, the FCC central clearance office primarily followed an itemized checklist to ensure that clearance packages contained all necessary forms for submission to GAO. At FCC the need for information is determined at the Bureau level, but the clearance representatives in the Bureaus are not required to question the determination. In one FCC Bureau, the same engineers and economists who initiate requests for information also assess the need for it.

Obtaining GAO approval was the last step in the clearance process for independent regulatory agencies. This step should have provided an additional check to ensure that only needed information would be collected. However, GAO's charter was very weak because we were precluded from denying agency information requests based on need. We were, therefore, limited to determining that the information requested neither duplicated information already available from another Federal agency nor created an undue burden on the respondents.

#### FERC's data validation process

The Federal Energy Regulatory Commission adopted a data validation program in 1978 with the intention of reducing the reporting burden on industry. In our opinion, this program is successful because specific review criteria are used to determine FERC's data needs, a high-level FERC official takes an active part in the validation process, and the Chairman of the Commission has stated strong support for continuing the reporting burden reduction effort.

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<sup>1/</sup>This was a GAO responsibility; however, the Paperwork Reduction Act of 1980 (Public Law 96-511), transferred GAO's independent regulatory agency review responsibility to OMB.



We are not proposing that other agencies necessarily adopt FERC's specific validation program since other methods may effectively ensure that only needed and used information is collected. However, we believe FERC's program demonstrates that a successful burden reduction program can be implemented as part of the reports clearance process.

#### COLLECTING INFORMATION FOR OTHERS

The Paperwork Reduction Act of 1980 requires Federal agencies to limit the collection of information to that which is necessary for the proper performance of their functions. The Federal Reports Act of 1942 as amended contained similar provisions. 1/ Despite these requirements, some agencies collect information for private parties even when the information is not needed for Federal Government purposes. Other agencies will collect information for others only if the collecting agency also needs the information. Some examples of how agencies are attempting to deal with this problem follow.

The Interstate Commerce Commission issued a policy statement on financial and statistical reporting in May 1979 which stated that ICC's reporting systems are not intended to meet informational needs of persons and organizations outside the agency. This policy is demonstrated by the revision to the annual report filed by Class III motor carriers of property (Form M-3). The revision reduced the amount of information carriers were required to file because ICC did not need most of it. 2/

A number of insurance companies claimed that ICC eliminated data from Form M-3 that the insurance industry needed. However, ICC concluded in this case that:

"We recognize that the data previously included in Form M-3 was useful to the insurance industry, but we believe that the Commission should only require the carriers it regulates to report information that the Commission needs and uses itself."

The Federal Energy Regulatory Commission has also dealt with the issue of collecting information for others. In one instance, FERC proposed revising annual electric utility and natural gas company reporting requirements to reduce the reporting burden on smaller companies--those with operating revenues of \$1 million or

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1/The Director of OMB can designate a Federal agency to collect information to meet the needs of other Federal agencies. However, independent regulatory agencies were not covered by this provision between November 1973 and April 1981.

2/In Dec. 1980, ICC eliminated Class III reports of all carriers.

less. FERC received comments from only one respondent who argued that FERC should continue collecting the information because it was in the public interest to do so. FERC recognized that the public may have some interest in having access to more detailed information from smaller electric utilities and natural gas companies, but determined the information was not needed for regulatory purposes. Consequently, it made the revision and relieved affected companies from unnecessary reporting.

In another instance, consumer interest groups and an association representing locally owned public utilities are protesting FERC's efforts to change the Form 1 by revising or eliminating 70 reporting requirements on privately owned utilities. In response to a July 1980 Notice of Proposed Rulemaking, the association stated that most of the information considered for elimination is important to its members to determine the validity of utility charges and assess the quality of utility management. FERC staff said they plan to complete action on the Form 1 revisions during 1981.

According to a Civil Aeronautics Board official, other Federal agencies and industry associations are encouraging the Board to keep its existing information systems even though CAB considers them unnecessary for its regulatory needs. CAB's Information Planning Project Team, in commenting on outsiders' need for information, recommended that CAB allow users an opportunity to justify continuation or modification of reporting requirements. A CAB official said the Board intends to give the users an opportunity to find another source for the information.

The Federal Maritime Commission has a policy of not collecting information for others unless the agency has a regulatory need for the information. The Federal Communications Commission has no policy concerning collecting information for others.

#### GRADUATED REPORTING

Regulatory agencies recognize that small companies have less impact than large companies on their industries and that the burden of complying with accounting and financial reporting is relatively more difficult for smaller companies. This realization has led regulatory agencies to establish graduated reporting requirements, i.e., larger companies must report more information more frequently than smaller companies.

The benefits of graduated reporting are not being fully realized because the agencies we reviewed have not adequately addressed the effects of inflation on the graduated accounting and reporting requirements. Furthermore, agencies arbitrarily establish graduated financial reporting requirements rather than base them on whether the information is needed for the proper performance of the functions of the agency.

Agencies have not adjusted  
class sizes for inflation

Agencies we reviewed have paid too little attention to the effects of inflation on graduated reporting requirements. Since annual revenues are the benchmarks used by agencies to set size-of-company classes for reporting, movement of a company upward in class size is not always due to true company growth. An example of the effects of inflation on graduated reporting follows.

FCC has not revised its size-of-company classifications since 1952; as a result, these classifications have caused much unnecessary burden for telephone companies in spite of more recent FCC efforts to reduce them. However, FCC has modified its reporting requirements. In 1966, realizing that many companies had to report too much detail, FCC relieved all telephone companies having annual revenues of less than \$1 million from submitting annual reports. Now, of the 925 telephone companies falling into FCC's Class A--which covers the largest companies, those with annual revenues in excess of \$250,000--only 59 actually report to the FCC. Although many FCC-regulated companies were relieved from reporting to FCC, they were still required to maintain the systems of accounts prescribed by FCC, based on the 1952 size-of-company classifications. Thus, not nearly as much burden was removed as could have been, had FCC revised its class sizes upward and relieved companies of both the reporting and the accounting requirement.

Agencies do not determine  
reporting requirements based  
on their need for information

Company revenue is a factor that some regulatory agencies use to establish financial reporting requirements. Some agency officials believe that companies whose total annual revenues constitute a majority of the industry's revenue have such an impact on the industry that they can be monitored to obtain reliable information about the industry as a whole. This factor does help reduce the total industry reporting burden. However, the agencies select the impact levels--such as 95 percent of total industry revenue--arbitrarily rather than base them on need for the information to properly perform the functions of the agency. For example, the Federal Energy Regulatory Commission used revenue impact criteria to change some of its reporting requirements. FERC officials stated that they reviewed several impact levels, ranging from 98 to 95 percent of the electric utility industry annual revenue, to determine what level would reduce the monthly reporting burden for a large number of the privately owned companies. FERC selected the 95-percent revenue impact level, which relieved 91 of the 212 Class A utilities from reporting.

We attempted to determine the methodology used by FERC officials in selecting the 95-percent revenue impact level. In particular, we wanted to know how it was decided that a 95-percent level

would satisfy FERC's needs and a lower level would not. FERC officials said this level was chosen because it would accomplish their objective of reducing burden. It also provided a natural break encompassing electric utilities with annual operating revenue of \$100 million or more.

#### RECORD RETENTION

Agencies require regulated companies to retain certain records for specified periods of time because, among other things, the records contain evidence of financial and legal commitments. Our review showed that agencies are requiring companies to retain records for periods longer than necessary because retention requirements are:

- not based on the agency's need for the records;
- outdated; and
- often vague about which records are to be retained and for how long.

#### Costs to retain records

Businesses are required to retain records for the agencies we reviewed as well as for other Federal, State, and local agencies. Therefore, we did not try to determine the specific cost of record storage attributable to the Federal agencies included in our review. Considered alone, each agency's record-retention requirements may not have a significant effect on the total cost of retaining records; considered together, these requirements have a significant effect. The following illustrate the costs two companies are incurring to retain records.

An airline representative stated that his company spends \$40,000 annually to store records. An electric utility budgets \$300,000 annually for record preservation. This company devotes 15,000 square feet of floorspace to the storage of financial records.

#### Record-retention requirements should be based on agency need

Agencies should determine their need for company records and base their record-retention requirements on those informational needs. For example, records might be retained because they may be needed to

- determine compliance with an agency's uniform system of accounts,
- facilitate an agency's audit schedule, or
- help an agency carry out its regulatory functions.

However, some agencies are basing record-retention periods on other factors, such as an expedient approach to simplify or standardize requirements. The Interstate Commerce Commission's method of determining some of its retention periods illustrates this point.

ICC in 1975 completely revised its record-retention requirements primarily to allow carriers to microfilm records but also to eliminate unnecessary requirements. However, it did so without fully assessing regulatory need. Although several factors, including the statute of limitations, were considered in the 1975 revision, ICC essentially chose the shortest retention requirement for each record type as prescribed in the existing separate requirements for railroads, motor carriers, water carriers, freight forwarders, and oil pipelines. The different requirements for those industries were combined into one set of requirements. For example, before 1975, ICC required that annual reports to the Commission be retained permanently by all carriers except reports from oil pipeline companies, which were to be retained for 10 years. Since the 10-year requirement was the shortest period, it was adopted. Beginning in 1975, all carriers' annual reports had to be retained for only 10 years. By thus standardizing its record-retention requirements, the ICC succeeded in reducing some burden. However, standardization is not an adequate criterion for revising record-retention requirements because it may not reflect regulatory need.

Agency record-retention requirements are outdated

Some agency record-retention requirements are also outdated and have not been completely revised for many years. Both the Civil Aeronautics Board and the Federal Maritime Commission have recently made complete revisions to their record-retention requirements but, for the most part, records management has not received much attention. Reviewing and revising these requirements periodically would ensure that the agencies do not impose unnecessary costs on regulated companies.

The following table summarizes requirements that FCC, FERC, and ICC have established--those agencies included in our review that have not recently made a complete revision--and provides some perspective as to the length of time such records must be held. The table also shows when the agencies' record-retention requirements were last revised completely.

<u>Agency</u>	<u>Last complete revision</u>	<u>Total requirements</u>	<u>Record retention periods</u>		
			<u>Perpetual</u>	<u>Ten years and longer</u>	<u>Less than 10 years</u>
FCC	1963	607	40	36	531
FERC	1971	301	17	13	271
ICC	1975	222	3	8	211

CAB completely revised its record-retention requirements in April 1981. It now prescribes a total of 27 record-retention requirements, with the longest retention period 3 years. Before this revision, CAB prescribed 136 record-retention requirements and 13 types of records were required to be retained permanently. We did not evaluate how CAB arrived at these new requirements because they were issued near the completion of our review; therefore, we are not in a position to report on their adequacy or say what portion is attributable to deregulation of the air industry. Nevertheless, it is a significant reduction.

Record-retention requirements  
are often vague  
about description or length of retention

Federal agency regulations are sometimes vague in describing records and their retention periods. This fact was the subject of discussions by the Association of Records Managers and Administrators, Inc. during House Government Operations Committee hearings held in February 1980 on proposed legislation which became the Paperwork Reduction Act of 1980. The Association estimated that one-fourth of the record-retention requirements do not include a specific retention period. Often retention periods are stated as "indefinite" or "not specified" and many are stated in such a manner as to necessitate legal interpretation.

Based upon a review of the agencies' record-retention rules, we concur with the Association of Records Managers and Administrators' conclusion that the requirements are sometimes ambiguous and vague. This has created difficulty for many regulated companies in determining how long they are required to keep specific records. Vague record-retention periods have put regulated companies in the position of having too many records for too long, thus adding to regulatory burden.

CONCLUSIONS

Over the past several years increasing emphasis has been placed on reducing Federal paperwork and the independent regulatory agencies are attempting to reduce the reporting burden they impose on American businesses. In our opinion, opportunities exist to further reduce this burden.

The Paperwork Reduction Act of 1980 should strengthen the reports clearance function and help solve many of the problems that exist today. The act provides strong management tools and requires that a senior official be responsible for each agency's information management activities. This provides the top management involvement--a key ingredient to success--that was lacking in the past. However, if the independent regulatory agencies we reviewed are to be successful in further reducing the accounting and financial reporting burden, they need to take additional steps.

Since the Director, OMB now has the responsibility for reviewing and approving independent regulatory agencies' information collection requests and for records management oversight, we are recommending that the Director, OMB take the necessary action to address the problems presented in this report.

#### RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget require that the Civil Aeronautics Board, Federal Communications Commission, Federal Energy Regulatory Commission, Federal Maritime Commission, and Interstate Commerce Commission:

- Strengthen the reports clearance function in accordance with the Paperwork Reduction Act of 1980 as a means of verifying the need for the information being collected.
- Effectively implement the requirements of the Paperwork Reduction Act of 1980 by limiting the collection of information to that which is necessary for the proper performance of Federal Government functions.
- Make better use of graduated reporting by addressing the effects of inflation on class size and by basing class size on the agency's need for the information rather than on an arbitrary designation.
- Increase the effort and attention given to record-retention programs, especially to revising existing requirements so they reflect the agency's current need for records and restating record descriptions and retention periods to remove vagueness and ambiguity.

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