



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

*Feinstein*  
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B-204699

October 30, 1981

The Honorable Bob Packwood  
Chairman, Committee on Commerce,  
Science, and Transportation  
United States Senate

Dear Mr. Chairman:

We have considered Senate bill 1462, (97th Congress, 1st Session), a bill "To establish the Arid Lands Renewable Resources Corporation," and are pleased to offer the following comments.

1. We question whether a Government corporation is the proper form to achieve the purposes of the act.

Historically, use of the Government corporate form to meet public enterprise goals was inconsistently applied and often not appropriate. After passage of the Government Corporation Control Act (GCCA) in 1945 (31 U.S.C. 841-849), and throughout the Truman and Eisenhower administrations, the President and the Bureau of the Budget (now Office of Management and Budget) resisted attempts to establish Government corporations and enterprises unless each proposal met four criteria:

- (a) The proposed function was predominately of a business or commercial nature.
- (b) It was revenue producing and potentially self-sustaining.
- (c) It involved a large number of business transactions with the public.
- (d) It required greater financial flexibility than the appropriations budget ordinarily permits.

We believe these criteria are valid today and should be reaffirmed by the administration. Accordingly, we think that employing the corporate form to achieve the objective of your bill (to bring about commercial production of renewable resources on arid land by providing financial incentives) is inappropriate because such a corporation would (1) not be revenue producing and potentially self-sustaining, (2) not involve a large number of business transactions with the public, and (3) not require greater financial flexibility than the appropriations budget ordinarily permits. We recommend that use of the corporate form be discarded in favor of a separate program or fund administered by an appropriate department or agency.

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2. Nevertheless, if you chose to employ the corporate form, we believe it should be designated a wholly owned Government corporation that is subject to the Government Corporation Control Act.

Enactment of GCCA represented recognition by the Congress both of the need for a special type of Government institution tailored to meet commercial requirements, and for special controls over such institutions which would ensure accountability without impairing essential flexibility. We are unaware of persuasive evidence demonstrating that the controls established by GCCA have impaired the capability of Government corporations to effectively carry out their missions. Some practices, such as placing ceilings on net corporate outlays or number of employees, are not requirements imposed by GCCA, but were responses to perceived abuses of corporate autonomy.

Most of the control mechanisms established in GCCA to achieve accountability are included in your bill. Indeed, in some respects (for example, commitment to a strong and independent inspector general) your bill is superior. We have consistently taken the position that comprehensive oversight should include management and program audits as well as financial audits. Using outside public accountants stands out as the most significant departure. We do not take exception to that departure. We believe, however, that since your bill provides most of the accountability controls present in GCCA, the Government would be better served if the corporation was established under GCCA. Central management, consistent treatment, and the visibility of Government corporations under GCCA are features essential to effective overall accountability. For example, the application of standardized accounting and financial reporting enhances comparability and, hence, promotes better fiscal management. In addition, congressional oversight is made easier.

We should also point out that we are working with other groups, including the Office of Management and Budget, to propose legislation for a revision of GCCA. We are striving to achieve a better accountability mechanism that allows for the necessary financial flexibility and autonomy needed by corporations to achieve their missions in a commercial environment, but that also preserves the Government's rights and responsibility for oversight and direction.

3. If you do not wish to make the corporation subject to GCCA, we recommend the following changes to Senate bill 1462:

--Section 603: Change "but shall not be included in the totals of the budget" to "and shall be included in the totals of the budget." We support on-budget reporting of all obligations, outlays, receipts and disbursements made from Federal funds. Off-budget reporting understates budget totals and distorts the true size of the deficit.

- Section 807(b)(1): Change "public accountants" to "certified public accountants" to ensure the application of consistent professional standards, as the States vary considerably with regard to public accountants.
- Section 807(b)(2): After "the GAO is authorized to conduct such audits," delete "of the accounts" which we believe might restrict GAO to financial audits and, thus, result in a duplication of effort and expense.
- Section 807(b)(2): Delete "but not less than every three years" which, in conjunction with the prior reference, may cause GAO to use resources every three years which duplicate the work of other independent accountants. Moreover, if GAO were to focus on audits of economy and efficiency, for example, the scope and effectiveness of the inspector general's efforts would be a better yardstick for determining audit frequency.
- Section 807(b): Add that "audits will be conducted in accordance with the 'Standards for Audit of Governmental Organizations, Programs, Activities, and Functions' (generally accepted government auditing standards) as promulgated by the Comptroller General of the United States."

The Inspector General Act of 1978 (5 U.S.C. app.) created offices of inspector general in several departments and agencies. For purposes of achieving consistency of approach and organization we suggest the following additional changes to Senate bill 1462:

- Section 208(b)(1)(D): Add "fraud" to the list of items to be reported.
- Section 208(c): Add three additional reporting requirements contained in the Inspector General Act:
  - (1) an identification of each significant recommendation described in previous reports on which corrective action has not been completed;
  - (2) a summary of each report made to the head of the corporation during the reporting period; and
  - (3) a listing of each audit report completed during the reporting period.

B-204699

We will be pleased to work with your office in elaborating on these points or developing alternative language.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General  
of the United States