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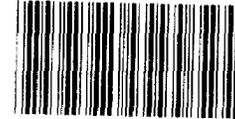
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Released

SEPTEMBER 24, 1980

B-198730

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



113887

Dear Mr. Chairman:

Subject: [Review of Federal Agencies' Gift Funds]
(FGMSD-80-77)

In your August 3, 1979, letter you asked us to review the larger gift funds managed by Federal agencies, including fund balances, sources of income, and purposes of expenditures with particular emphasis on travel and entertainment. This letter report contains summary information on our review (encl. I), statistical data on revenue and disbursements (encl. II), and a list of major uses of gifts (encl. III).

During fiscal 1979, 41 Government agencies received a total of \$21,631,000 classified as gift revenue. The 10 agencies we reviewed collected about 83 percent of this total. The revenue was derived from a variety of sources including private individuals, corporations, and nonprofit organizations. In addition to donations, income such as honoraria, travel reimbursements, and funds received under agreements between Federal agencies and nongovernmental organizations is also classified as gift revenue. (See encl. I.)

Once gifts are accepted, agencies have great flexibility in using them. Legislation permitting agencies to accept and disburse gifts generally requires only that the gifts be used to further agency goals. In addition, there are no Government-wide criteria for judging a proper gift fund disbursement. An agency's flexibility is reduced only when a donor places a specific restriction on the use of a gift. In such cases, agencies must have authority to accept restricted gifts and, given this authority, must honor the donor's restriction.

Gift funds are used for a variety of purposes depending on the needs and goals of individual agencies. During fiscal 1979, for example, gifts were used to support museums, medical research, cultural activities, and social events. In the

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support of their various activities, most agencies reviewed expended gift funds for travel and entertainment.

We evaluated selected gift fund disbursements in light of the broad discretion allowed Federal agencies, and found the funds were generally used to further agency goals. We do question, however, the Library of Congress' use of gifts to establish revolving funds, some of which have grown significantly in size, without obtaining congressional approval. This matter is the subject of a separate report to your Committee (FGMSD-80-76).

We also found that agencies' ability to finance activities with gifts dilutes congressional oversight of agency operations. Because gift funds are financed by private sources, they do not go through the appropriation process as would other agency funds. Thus, the Congress is not involved in setting funding limits or priorities for gift fund activities. In addition, the Congress receives only minimal information about gift fund activities in the yearly Federal Budget Appendix--thus diluting another opportunity for congressional oversight.

No Government-wide guidance exists concerning gift fund management. Therefore, we are recommending that the Office of Management and Budget

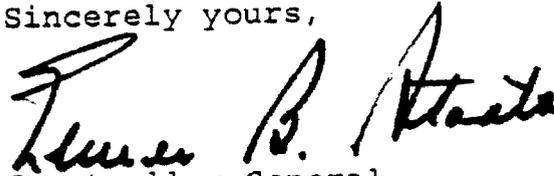
- require Federal agencies to more fully disclose gift fund activities in their annual budget submissions,
- review agency budget submissions to assure that reporting requirements are met, and
- develop Government-wide criteria for the solicitation, receipt, and use of gift funds.

This information should give the Congress a clearer picture of gift fund activities and how these activities affect overall agency operations.

Throughout our review, we identified gift fund accounting problems that are not included in this report. These problems were generally confined to individual agencies and did not have Government-wide application. We did, however, discuss these problems with agency officials and, in most cases, remedial action was promised.

At your request we did not obtain official written agency comments on the matters discussed in the report and will not make further distribution, unless you publicly announce its contents, until 30 days from the date of the report. At that time we will send a copy to the Director of the Office of Management and Budget and to other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas B. Staats". The signature is written in a cursive style with a large, prominent initial 'T'.

Comptroller General
of the United States

Enclosures - 4

MAJOR SOURCES AND USESOF FEDERAL AGENCY GIFT FUNDS

Federal agencies receive millions of dollars each year in the form of gifts. Some of the money is used to augment agencies' travel expenses and for entertainment. Federal agencies account for this money under the general heading of "gift funds." These funds are outside the appropriation process and the Congress receives very little information about gift fund activities.

SCOPE

As requested in your August 3, 1979, letter, we reviewed the larger Federal gift funds focusing on fund balances, sources of income, and purpose of expenditures, and looking closely at travel and entertainment. These larger funds represented 83 percent of all monetary gifts received by the United States in fiscal 1979. The 10 agencies we reviewed are listed in enclosure II. We evaluated selected disbursements to determine if gifts were used to further agencies' goals.

BACKGROUND

Over the years, the Congress has given various Federal agencies the authority to accept and use gifts. To keep these gifts and appropriated funds separate, agencies establish separate accounts for them. These funds are from nongovernmental sources and thus are outside the appropriation process. The following sections of this enclosure discuss the sources of gifts, the use of gifts, and how an agency's ability to use gifts reduces congressional oversight of Federal activities. For simplicity in presenting this report, we refer to all accounts established to control gifts as "gift funds."

SOURCES OF INCOME

During fiscal 1979, 41 Federal organizations received, in addition to appropriations, a total of \$21,631,000 reported by the Department of the Treasury as gifts. The 10 agencies we reviewed received \$17,875,000 of this amount. (See encl. II.) These funds came from various sources including private citizens, estates, nonprofit organizations, and corporations. However, Treasury's classification of this approximately \$22 million as gift funds may be misleading because the total also includes honoraria, travel reimbursements, and funds received as a result of agreements--which are not true gifts. A gift is defined as "something that is bestowed voluntarily and without compensation."

Contributions which could be considered true gifts range from \$10 donations for cancer research to a \$100,000 bequest to the Naval Academy. Larger gifts are often invested in the Treasury and the interest used to support ongoing programs. For example, the Naval Academy, at the end of fiscal 1979, had over \$2.5 million invested in Treasury securities while at the end of fiscal 1978, the Library of Congress had about \$5.6 million invested with the Treasury.

Not all gifts are unsolicited, however. For example, the Department of State has a Fine Arts Committee which conducts a large, ongoing fundraising campaign for furnishing and decorating the area used for the Department of State's diplomatic functions. During fiscal 1979, the Fine Arts Committee received over \$790,000 in contributions. In another case, the National Institutes of Health received \$8,000 in contributions for entertainment expenses. We were told these funds were solicited from benefactors because the Institutes had no funds available to entertain distinguished guests. Also, the Library of Congress solicited \$21,680 to support the opening of a performing arts program.

As mentioned earlier, honoraria and travel reimbursements are another source of income shown as gift fund contributions. Government employees on official business may receive a small stipend when speaking before private groups. This money is often deposited in the agency's gift fund. Private groups may also reimburse the travel costs of Government officials and, if gift funds initially financed official travel, the reimbursement should be deposited in the gift fund. We found, however, that three agencies--the Departments of Commerce and State and the National Science Foundation--had deposited travel reimbursements to their gift funds when appropriated funds had financed the initial travel. In effect, the agencies supplemented their gift funds with appropriated moneys. This conflicts with 46 Comp. Gen. 689 (1967), which states that travel reimbursement should be credited to the appropriation that initially funded the travel. Officials of the three agencies involved said they would review their travel reimbursement policy in light of the Comptroller General's decision.

Treasury also erroneously classifies as gifts funds that are received from nongovernmental sources either as part of an agreement or as a result of a Government agency providing a service. The following fiscal 1979 examples illustrate this type of contribution.

--The National Endowment for the Humanities received more contributions than any other Federal agency--over \$10 million. With the exception of about \$2,000, all

of these funds were restricted and collected as part of the Endowment's grant program. The Endowment requires, through agreement prior to funding a project, that the prospective grantee obtain additional funding from non-Federal sources. The Endowment receives these non-Federal funds and accounts for them as a restricted gift. The grantee, in turn, receives the non-Federal funds along with the Endowment funds as the total grant.

- The National Science Foundation received about \$5,500,000 in contributions. Foreign governments contributed all but about \$2,000 of this amount for a jointly funded scientific research project being conducted under an international agreement. Of the \$5,500,000 received by the Foundation, only about \$3,100,000 was reported to Treasury and included in the annual receipts of the United States, thus understating fiscal 1979 income by almost \$2,400,000. This situation occurred because the Foundation deposits foreign donations in a private bank. Funds are transferred to the U.S. Treasury and recorded as a receipt to the U.S. Government only when the Foundation disburses the funds. Since all funds received in fiscal 1979 were not disbursed, receipts were understated.
- The Public Health Service received about \$484,000 in contributions. These funds came mainly from World Health Organization gifts to support medical research.
- The Library of Congress received about \$1,400,000 to prepare and edit National Union Catalogs--bibliographical projects. The donors agreed, by contract, to funding and, as a result of these agreements, acquired publishing rights to the Catalogs.

USES OF GIFT FUNDS

Federal agencies use gifts for a variety of purposes such as operating museums, funding medical research, or financing travel and entertainment. Some activities financed by gifts also receive appropriated fund support. However, the Congress may be unaware of many of the activities financed by gift funds because agencies usually report gift fund operations in vague terms.

Maximum flexibility allowed

Legislative authority establishing gift funds allows agencies maximum flexibility in using these funds. The only

restriction generally imposed is that the gift must be used for the good of the agency or to further agency goals.

In addition to the broad discretion allowed by law, an agency's flexibility in using gift funds is further increased by the absence of Government-wide criteria for their use. While some agencies reviewed have their own gift fund regulations, these regulations tend to concentrate on the procedures for accepting gifts rather than on defining how the funds should be used. The use of gifts is addressed only in a broad context, with no specific definition of a proper gift fund expenditure. The decision on how to use gift funds is usually made by agency heads or their designees, without firm criteria.

An agency's flexibility in using gifts can be reduced, however, depending on the type of gift received. When an agency has authority to accept restricted gifts, donors may restrict gifts to designated purposes and an agency is required to honor such restrictions. A restriction may be as vague as designating a general purpose to be funded or as precise as specifying the funding of a particular event.

In some instances, gifts are used to support activities that also receive appropriated funds. For example, the National Institutes of Health bought medical research equipment with both appropriated and gift funds, as did the Navy in constructing the U.S.S. Arizona memorial. We also found that many agencies are using both types of funds to finance travel and entertainment expenses.

While gifts are used in some cases to supplement appropriated funds, in other cases they are the sole funding source of some agency activities. For example, in fiscal 1979, the Department of State spent about \$1.3 million in gift funds to rehabilitate and furnish the area used for its diplomatic functions. This project received no appropriated fund support. Similarly, the Library of Congress supports many literary activities solely by gifts.

The Library of Congress has used some gifts in a most unique manner. Through the years, the Library has established over 20 revolving funds, using gifts as the initial capital. These funds currently generate revenue of approximately \$3.7 million a year. This gift fund use, which we question, is the subject of a separate report to your Committee.

While most agencies are using gifts for various purposes, we found one agency that rarely uses its gift funds. The Bureau of Indian Affairs, Washington Central Office, has gift funds in excess of \$320,000. The funds have accumulated because no one was sure who had responsibility for gift funds,

nor how the funds could be used. We believe this is unfair both to the donors, who expect their gifts to be used, and to the Indian people, who should be deriving benefits from these gifts. After we discussed this situation with Bureau officials, a task force was created to control and use gifts.

Use of gift funds for entertainment
and travel expenses

A Federal agency is provided travel and, in some instances, entertainment funds by Congress. However, in addition to using appropriated money for these purposes, agencies are using gifts--which are outside congressional control. Of the 10 gift funds reviewed, 8 had funded entertainment while 7 had funded travel.

Agencies usually report gift fund travel expenditures in the Federal Budget Appendix as a separate line item. We found that travel financed by gifts usually related to activities supported by gifts and not to normal agency operations. For example, during fiscal 1979 the Library of Congress spent over \$36,000 in gifts for travel. We selectively reviewed this travel and found only one instance where the travel was for other than gift fund activities.

We did, however, find instances where gift fund travel was not reported to the Congress. The National Science Foundation invests foreign donations for research and the interest earned is restricted to travel related to this research. During fiscal 1979, \$53,000 in interest was obligated for travel and at the end of fiscal 1979, \$782,000 in interest was still available for travel. The Foundation's presentation in the Federal Budget Appendix mentions neither travel expenses nor the sizable travel reserve available.

Entertainment expenses are not reported as a separate line item and the Congress may not be aware that these expenses are funded by gifts. In addition, many entertainment expenses do not relate to gift fund activities, but rather to normal agency operations. The following examples highlight entertainment expenses financed by gifts during fiscal 1979.

--All National Endowment for the Humanities unrestricted gift fund expenditures are used for entertainment expenses. The Endowment obligated over \$6,400 for such items as luncheons, job interviews, and a \$3,400 reception. The Endowment has no appropriated entertainment allowance. We found that much of the unrestricted money used for entertainment was initially restricted, by the donor, to a specific grant. However, when a project is complete and restricted funds are still

available, the Endowment gives the donor the option of having the funds returned or donating them for some other "worthy" Endowment purpose. In effect, this worthy purpose is entertainment. In the last 3 years, over \$20,000 has been converted from restricted to unrestricted funds.

- The Library of Congress financed over \$33,500 in entertainment with gifts. This entertainment included literary meetings, working luncheons, and receptions held in connection with Library of Congress exhibit openings. In some instances, the Library received gifts specifically for entertainment. For example, one corporation donated funds to support an animation exhibit opening which included a dinner costing over \$7,500.
- The Office of the Secretary, Department of Commerce, spent an estimated \$10,000 in gifts on such items as receptions for foreign dignitaries and industrial leaders. While the Secretary received \$2,500 in appropriated entertainment allowances, we were told that additional gift expenditures were needed to meet representational obligations.
- The National Institutes of Health disbursed over \$6,000 in gift funds for entertaining distinguished guests. All this money was donated to the Institutes specifically for entertainment. We were told that these gifts were needed because the Director's entertainment allowance did not cover his representational commitments.
- The Department of State spent about \$23,500 in gifts for a large Fine Arts Committee fundraising dinner. All money spent was donated specifically for this event.

As can be seen, the use of gift funds varies with individual agency goals and needs. One common element is present, however; agencies have great flexibility in using gift funds.

FLEXIBILITY IN USE OF GIFT FUNDS REDUCES CONGRESSIONAL OVERSIGHT

A Federal agency can accept and use gifts only when the Congress has given it specific authority to do so. By granting agencies this authority to accept gifts, the Congress has relinquished some control over agency operations funded by gifts, because these funds are outside the appropriation process. The Congress uses the appropriation process in performing part of its oversight function and in setting priorities for agency operations.

Congressional oversight is further reduced because agencies are not fully reporting gift fund activities. While agencies include gift fund accounts in their annual congressional budget submissions, these submissions do not provide a clear picture of gift fund operations and, in some cases, could be misleading. Gift funds are sometimes combined and reported with other trust funds. For example, the Department of Health and Human Services combines and reports several gift funds such as those at the National Institutes of Health, the Public Health Service, the Center for Disease Control, and the Food and Drug Administration as "gifts" under the Assistant Secretary for Health's miscellaneous trust funds. Also included in this category are trust funds for Indian health facilities and special statistical work.

However, the narrative accompanying miscellaneous gift funds only mentions gifts as being for the benefit of Public Health Service patients and research. No specific information is provided on the type of benefits received or the type of research conducted. Nor is any mention made of the other gift funds which are included in the totals.

When gift funds are presented separately, information furnished usually provides no more than a general description of the gift fund operation. For example, the Department of Commerce states in its budget submission only that gifts will be used as nearly as possible in accordance with the terms of the gift. No specific terms are given and no mention is made of unrestricted gifts nor of the fact that these gifts are used in many instances for entertainment. As another example, we found that the gift fund category is also used to account for other types of nonappropriated funds, not just for gifts. Although a gift is defined as "something that is bestowed voluntarily and without compensation," much of the income reported under gift funds is actually for services rendered by a Federal agency or required as part of a formal agreement.

In summary, congressional oversight of Federal activities is reduced because agencies receive money from outside the appropriation process and do not fully disclose the use of this money.

CONCLUSION

Congressional oversight of Government operations is reduced somewhat because Federal agencies finance activities through gift funds. These funds are financed outside the appropriation process solely by private contributions. Thus, the Congress does not have the opportunity for advance examination of gift fund spending limits or priorities as it would

with appropriated funds. In addition, agencies are free to use gift funds as they wish within the broad mandate "for the good of the agency" and within restrictions established by donors. Agencies' use of gift funds, however, is reported to the Congress only in the most general terms and therefore the Congress may be unaware of many activities financed through these funds.

RECOMMENDATIONS

In view of the lack of gift fund information available to the Congress, we recommend that the Office of Management and Budget

- require Federal agencies to more fully disclose gift fund operations in their budget submissions,
- review agency budget submissions to assure that reporting requirements are met, and
- develop Government-wide criteria for the solicitation, receipt, and use of gift funds.

This information should give the Congress a clearer picture of gift fund activities and how these activities affect overall agency operations.

FUND BALANCES, DISBURSEMENTS, COLLECTIONS, AND
SOURCES OF INCOME FOR GIFT FUNDS REVIEWED

<u>Gift fund</u>	<u>Unobligated balance (end of fiscal 79)</u>	<u>Fiscal 79</u>		<u>Sources of Contributions</u>
		<u>Disbursements</u>	<u>Collections</u>	
Department of Commerce	\$ 171,211	\$ 225,083	\$ 200,059	--Honoraria --Travel reimbursement --Corporations --General public --Articles --Interest income
National Institutes of Health	253,262	223,540	119,052	--General public --World Health Organization
Public Health Service	136,251	398,523	484,434	--General public --World Health Organization
Department of the Navy	328,220	112,000	108,593	--General public --Naval associations
Naval Academy	a/ 224,785	219,350	b/ 339,257	--Sale of donated property --Investment income
Department of State	1,060,248	1,544,094	988,244	--General public --UNESCO (note c) --Travel reimbursement --Fees for use of Diplo- matic function area
Bureau of Indian Affairs (Washington Central Office)	322,194	-	10,019	--Estates --General public
Library of Congress	1,388,945	2,667,747	d/ 2,291,366	--Foundations --General public --Corporations --Interest income
National Endowment for the Humanities	65,461	9,090,553	10,201,283	--Honoraria --Grants program
National Science Foundation	<u>2,448,000</u>	e/ <u>8,043,082</u>	f/ <u>3,133,414</u>	--Foreign governments --Interest income
Total	<u>\$6,898,577</u>	<u>\$22,523,972</u>	<u>\$17,875,721</u>	

a/ Does not include approximately \$2.35 million in Treasury investments not available for immediate use.

b/ Does not include about \$110,000 in interest income.

c/ United Nations Educational, Scientific, and Cultural Organization.

d/ Does not include about \$677,800 in interest income.

e/ Obligations rather than disbursements.

f/ Does not include about \$3 million not reported to Treasury.

USES OF GIFTS

<u>Gift fund</u>	<u>Major uses</u>
Department of Commerce	Travel Entertainment Support of Merchant Marine Academy
National Institutes of Health	Medical research Patient benefits Entertainment
Public Health Service	Medical research Patient benefits
Department of the Navy	U.S.S. <u>Arizona</u> memorial Medical research Patient care
Naval Academy	Midshipmen morale and welfare Academy sailing program Museum expenses
Department of State	Maintenance and improvement of diplomatic function area Loans to embassy nonappropriated activities Travel for speakers
Bureau of Indian Affairs	None
Library of Congress	Literary activities (including travel and entertainment expenses)
National Endowment for the Humanities	Grant program Entertainment
National Science Foundation	Scientific research (including travel expenses)

JAMES H. EASTLAND, MISS. JAMES O. EASTLAND, MISS. JAMES C. EASTLAND, MISS. JAMES H. EASTLAND, MISS.	STROM THURMOND, MISS. CINDY L. THURMOND, MISS. PAUL L. THURMOND, MISS. BOBBY L. THURMOND, MISS.
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United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

DAVID MOSES
CHIEF COUNSEL AND STAFF DIRECTOR

August 3, 1979

Honorable Elmer B. Staats
Comptroller General
General Accounting Office
Washington, D. C. 20548

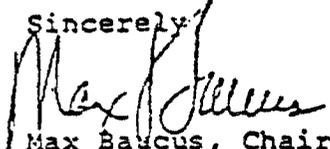
Dear Mr. Staats:

Thank you for the outstanding job by your Financial and General Management Studies Division, particularly Ms. Barbara Pauley, Tim Healy and Martin Caulk, on my recent request for a list of working capital funds. The list covers all matters on which I requested information and will be a substantial help to my staff as we review the use of Federal agency working capital funds.

My staff discussed the listing of funds provided with Ms. Pauley and Mr. John Cronin of your staff in the light of recent press articles on questionable trust fund expenditures at the National Park Service and the National Archives and Records Service. I understand these funds are yet another category of funds called gift funds that can also be subject to abuse.

I understand there are about 45 Federal agency gift funds, but few are very large (outlays in excess of \$100,000). I would appreciate a review of the larger gift funds to include information on fund balances, sources of income and purpose of expenditures with particular emphasis on travel and entertainment. The National Archives and Records Service and the National Park Service gift funds, which have already been reviewed by GAO, need not be included. The contact is Mr. Franklin Silbey, at 224-6741.

With best personal regards, I am

Sincerely,

Max Baucus, Chairman
Subcommittee on Limitations of
Contracted and Delegated Authority