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BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman, Subcommittee  
On Oversight And Investigations  
Committee On Energy And Commerce**

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**Federal Accounting And Auditing Standards  
Affecting The Private Sector**

GAO identified 19 federal agencies, other than the Securities and Exchange Commission, which establish accounting and auditing standards affecting private sector companies. GAO also found that these agencies perform compliance reviews, audits, and examinations to determine if companies are meeting their accounting and auditing standards and may take remedial action, both administrative and legal, to ensure compliance.



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

ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

B-217968

The Honorable John D. Dingell  
Chairman, Subcommittee on Oversight  
and Investigations  
Committee on Energy and Commerce  
House of Representatives

Dear Mr. Chairman:

This letter responds to the first part of your August 16, 1984 request. You asked that we provide information on federal entities other than the Securities and Exchange Commission (SEC) with authority to establish and enforce auditing and accounting standards affecting private sector companies (see appendix III), as well as on the manner in which each entity has exercised such authority. This report supplements the testimony we provided at your hearing on February 20, 1985. The second part of your request dealing with business practices in foreign countries will be addressed at a later time.

We determined what organizations in the public and private sectors establish accounting and auditing standards, what the standards are, and how the agencies ensured compliance with prescribed standards. We also identified types of companies which report to both the SEC and other standard-setting agencies and obtained examples of differences between agency standards and generally accepted accounting principles (GAAP), which the SEC requires reporting companies to follow. We defined agency to include any department, office, commission, authority, administration, board, government-owned corporation, or other independent establishment of any branch of the federal government.

We researched the U.S. Code and the Code of Federal Regulations, and interviewed officials from the agencies we identified as setting accounting and auditing standards. The agencies identified are in three areas--financial institutions, transportation, and energy and other. We included federal agencies with jurisdiction over private sector companies, savings and loan associations, credit unions, and cooperatives. Much of the information we present was provided to us through interviews with agency officials and by reviewing documentation they supplied. Our field work was conducted between November 1984 and February 1985. The draft of this report was sent to 18 agencies for review and comment. All agencies responded, and

many provided updated information or corrected information previously provided to us. Agency comments have been incorporated into the final report where appropriate and are available for review upon request.

We found that at least 19 federal agencies, including the Cost Accounting Standards Board, abolished in 1980, and the Railroad Accounting Principles Board, establish accounting or auditing standards affecting private sector companies. Three of the 19 agencies, the Rural Electrification Administration (REA), the Tennessee Valley Authority (TVA), and the Urban Mass Transportation Administration (UMTA), may also prescribe standards for entities other than private sector companies, such as governmental units, if they provide financial assistance or other services to these entities. REA provides loans to municipalities, public power districts, and cooperatives. TVA sells power to municipalities and to cooperatives. Finally, UMTA provides assistance to state and local governments in financing mass transportation systems. UMTA also provides grants and loans to assist communities in acquiring and improving capital equipment and facilities needed for urban mass transit systems, both public and private. However, for this review we concentrated our efforts on only those standards that affect private sector companies.

While many of these companies report to the SEC using generally accepted accounting principles, they may also be reporting to the federal agencies using variations of these principles as required by the agencies. We did not attempt to perform a comprehensive comparison of agency standards against GAAP, but rather obtained nine examples of variances through interviews. (See discussion of variances beginning on page 10 and also in appendix IV.) We also found that agencies perform compliance reviews to determine if companies are meeting their accounting and auditing standards and may take remedial action, both administrative and legal, to ensure compliance. Our review was performed in accordance with generally accepted government auditing standards. The information we obtained is presented below and in the appendixes.

#### IMPORTANCE OF ACCOUNTING AND AUDITING STANDARDS

The United States' system of public securities, capital markets, and private enterprise is based on the concept of full and fair disclosure as the best mechanism for investor protection. This concept has three major components: (1) a set of generally accepted accounting and disclosure principles to provide a full and fair presentation of an organization's financial position and the results of its operation; (2) the concept that management is responsible for providing a full and fair disclosure; and (3) independent audits by professional auditors, using generally accepted auditing standards, to express an opinion on whether an organization's financial statements, taken as a whole, provide a fair picture of the

company. A comprehensive set of accounting and disclosure standards consistently applied is necessary to ensure that companies follow the same rules and concepts in preparing financial reports and disclosures. Several organizations have been responsible for establishing these generally accepted standards.

#### ORGANIZATIONS ESTABLISHING ACCOUNTING AND AUDITING STANDARDS

Prior to 1973, the Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA) provided much of the leadership in developing financial accounting standards. In 1972, the Financial Accounting Standards Board (FASB) was created to replace the Accounting Principles Board and to establish and improve standards for financial accounting and reporting. In addition, the Governmental Accounting Standards Board began operations in 1984, with the purpose of establishing nationwide standards for financial accounting and reporting by state, county, and municipal governments.

To promote consistency in the scope and quality of audit work, both the AICPA and the General Accounting Office (GAO) have issued standards which auditors generally must follow. Over the years, the AICPA, working through committees, through its Auditing Standards Board, and through issuance of industry audit guides, has set auditing standards. The Auditing Standards Board establishes and interprets generally accepted auditing standards (GAAS) through Statements on Auditing Standards. These standards apply to audits performed to express opinions on the fairness with which an organization's financial statements present the financial position, results of operations, and changes in financial position in accordance with generally accepted accounting principles.

GAO has issued Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. These standards are broader in scope than those set by the AICPA and cover economy and efficiency, and program results work as well as financial statement audits. They require not only an opinion on financial statements but also a report on internal controls and a report on compliance with laws and regulations. In most cases, these generally accepted government auditing standards (GAGAS) are required to be followed when auditing federal organizations and activities as well as federal funds received by contractors, nonprofit organizations, and other external organizations.

#### Role of the Securities and Exchange Commission

The SEC is the most important single federal entity involved in setting accounting and auditing requirements

affecting private sector companies. Created by the Securities Exchange Act of 1934 (15 USC 78a et seq.), the SEC has a prominent role in the oversight of financial reporting by private sector companies for the protection of investors and the public in their securities transactions. The accounting standards which the SEC has accepted are, almost without exception, those accounting rules promulgated by the Financial Accounting Standards Board and its predecessors. The SEC sets rules for public reporting and requires audits of all public companies registered with the SEC in accordance with these rules and accounting standards. The SEC also issues interpretive guidance in the form of Staff Accounting Bulletins. The SEC affects accounting standards and practices through its review and comment process, oversight of the FASB and AICPA, and its enforcement program. Many companies regulated by federal agencies must report to the respective regulatory agency and to the SEC using requirements established by each agency. We found that 7 of the 19 standard-setting agencies we identified regulated companies reporting to both the SEC and regulatory agencies. (See appendix I for details.)

Regarding auditing, the SEC has accepted virtually all the rules promulgated by the AICPA as the standards for audits conducted to meet its requirements. With the support of the SEC, generally accepted accounting principles as promulgated by the FASB and generally accepted auditing standards as promulgated by the AICPA have become the benchmark standards for public reporting and disclosure in the securities markets.

#### Role of other federal agencies and boards

While many federal entities require information from private sector companies, we identified 19 agencies that obtain information on the financial operation of the company or specify accounting or auditing standards which companies must follow. Those agencies are in three areas: financial institutions, transportation, and energy and other. (See appendix III for additional information on the functions and authorities of these agencies.)

#### FINANCIAL INSTITUTIONS

Board of Governors of the Federal Reserve System (FRS) - regulates about 1,070 state-chartered commercial banks, 6,150 bank holding companies, 140 edge and agreement corporations,<sup>1</sup> and 490 U.S. branches, agencies, and New York State investment companies of foreign banks. The

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<sup>1</sup>Edge and agreement corporations are established to conduct international or foreign banking and financing.

Board establishes reserve requirements for all banks and depository institutions. The Board also sets margin requirements on credit extended by brokers, banks, or others to purchase or carry stock.

Office of the Comptroller of the Currency (OCC) -  
regulates about 4,900 national banks by executing laws relating to national banks and promulgating rules and regulations governing the operations of national and District of Columbia banks.

Farm Credit Administration (FCA) -  
supervises, examines, and regulates the borrower-owned cooperative Farm Credit System, which includes about 40 banks and 790 associations.

Federal Deposit Insurance Corporation (FDIC) -  
insures the deposits in all national banks, in all state banks which are members of the Federal Reserve System, and in those state banks that meet certain qualifications and apply for insurance. The FDIC is the primary federal supervisor and regulator of approximately 8,800 FDIC insured state-chartered commercial and savings banks that are not members of the Federal Reserve System.

Federal Home Loan Bank Board (FHLBB) -  
regulates about 3,300 savings and loan associations, half federal and half state associations. The Board directs the Federal Home Loan Bank System, which provides reserve credit to member savings institutions engaged in mortgage lending.

National Credit Union Administration (NCUA) -  
charters, insures, supervises, and examines about 11,000 federal credit unions and insures approximately 5,000 state-chartered credit unions.

## TRANSPORTATION

Civil Aeronautics Board (CAB) -  
regulated about 440 individual companies in the civil air transport industry and determined carrier conformance with prescribed accounting and reporting regulations. CAB was disestablished on December 31, 1984, and most of its residual functions were transferred to the Department of Transportation (DOT).<sup>2</sup>

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<sup>2</sup>A new Office of Aviation Information Management within the Research and Special Programs Administration, DOT, is now responsible for air carrier accounting and reporting.

Federal Maritime Commission (FMC) -

regulates common carriers and other persons operating in the offshore waterborne commerce of the United States. FMC's regulatory authority includes the acceptance or rejection of tariff filings. With respect to the domestic offshore trades, FMC evaluates the reasonableness of rates offered by about 50 common carriers. FMC administers programs to ensure compliance with the shipping statutes.

Interstate Commerce Commission (ICC) -

regulates companies engaged in interstate surface transportation, including railroads, trucking firms, bus companies, water carriers, freight forwarders, transportation brokers, and a coal slurry pipeline. ICC has authority over purchases, mergers, carrier entry rates, and railroad adequacy of service. About 2,900 companies must file annual and periodic reports with the ICC.

Maritime Administration (MARAD) (DOT) -

administers subsidy programs for ship construction and operation involving about 350 shipping companies, shipping supply companies, oil drilling companies, and inland waterway operations.

Railroad Accounting Principles Board (RAPB) -

created to establish uniform cost accounting principles for determining rail costs used in regulatory activities of the Interstate Commerce Commission.

Urban Mass Transportation Administration (UMTA) (DOT) -

provides grants or loans to about 500 entities to assist communities in acquiring or improving operating equipment and facilities for public and private mass transit systems.

ENERGY AND OTHER

Commodity Futures Trading Commission (CFTC) -

regulates the commodities industry, which is comprised of 13 domestic exchanges and about 400 futures commission merchants (commodity brokers). Also included in the industry and regulated by the CFTC are approximately 1,200 commodity pool operators, 2,100 commodity trading advisors, and 800 introducing brokers.

Cost Accounting Standards Board (CASB) -

established cost accounting standards to be used in certain negotiated defense contracts and subcontracts. Although the board was abolished in 1980, its standards have been adopted in the Federal Acquisition Regulation.

Federal Communications Commission (FCC) -  
regulates about 70 telephone carriers, a telegraph carrier, six international record carriers, and the Communications Satellite Corporation (COMSAT).

Federal Energy Regulatory Commission (FERC) -  
regulates about 480 companies engaged in the transportation and sale of natural gas and oil by pipeline, and in the transmission and sale of electricity. FERC also licenses hydroelectric power projects.

Office of Pension and Welfare Benefit Programs (OPWBP) (Labor) -  
monitors the operation of about 975,000 private pension and welfare plans and enforces fiduciary responsibility standards.

Rural Electrification Administration (REA) -  
assists about 1,100 rural electric and 1,000 telephone utilities to obtain financing. Assistance includes loans from REA, guarantees of loans made by others, and approval of security agreements which permit the borrower to obtain financing from other lenders without a guarantee.

Tennessee Valley Authority (TVA) -  
sells power to about 110 local municipalities and about 50 electric cooperatives and conducts other resource development projects in the Tennessee Valley region.

In regulating and monitoring the industries described above, the agencies prescribed requirements for accountability. Based on the information we obtained from the agencies, we determined that these requirements primarily included financial statement form and content, special reports (other than financial statements), uniform system of accounts, records retention, and agency defined accounting systems. The table below summarizes requirements established by each agency. Additional details are contained in appendix I.

AGENCY ACCOUNTING AND REPORTING REQUIREMENTS

<u>Federal agency</u> <sup>3</sup>	<u>Financial statement form and content</u>	<u>Special reports</u>	<u>Uniform system of accounts</u>	<u>Records retention</u>	<u>Accounting systems</u>
Federal Reserve System	YES	YES	NO	YES	NO
Office of the Comptroller of the Currency	YES	YES	NO	NO	NO
Farm Credit Administration	YES	YES	YES	YES	NO
Federal Deposit Insurance Corporation	YES	YES	NO	NO	NO
Federal Home Loan Bank Board	YES	YES	NO	NO	NO
National Credit Union Administration	YES	NO	NO	NO	NO
Civil Aeronautics Board	YES	YES	YES	YES	YES
Federal Maritime Commission	YES	YES	NO	NO	NO
Interstate Commerce Commission	YES	YES	YES	YES	YES
Maritime Administration	YES	YES	YES	YES	NO
Urban Mass Transportation Administration	YES	YES	YES	YES	NO
Commodity Futures Trading Commission	YES <sup>4</sup>	YES	NO	YES	NO
Federal Communications Commission	YES	YES	YES	YES	YES <sup>4</sup>
Federal Energy Regulatory Commission	YES	YES	YES	YES	YES

<sup>3</sup>The Cost Accounting Standards Board and the Railroad Accounting Principles Board are not included in this table.

<sup>4</sup>Exceptions are noted in appendix I, page 16.

<u>Federal agency</u>	<u>Financial statement form and content</u>	<u>Special reports</u>	<u>Uniform system of accounts</u>	<u>Records retention</u>	<u>Accounting systems</u>
Office of Pension and Welfare Benefit Programs	YES	YES	NO	NO	NO
Rural Electrification Administration	YES	YES	YES	YES	YES
Tennessee Valley Authority	YES	YES	YES	YES	NO

VARIANCES FROM GENERALLY  
ACCEPTED ACCOUNTING PRINCIPLES

Eleven of the agencies require GAAP to be used in preparing financial statements to the agency. The others generally require GAAP, but with variances. (See appendix I.) Where differences exist, it may be because an industry has a specific type of accounting issue not fully covered in the standards; therefore, the agency adopts a more specific procedure, compatible with GAAP. On the other hand, the agency may prescribe or permit a specific alternative or nonstandard treatment to obtain more consistent or comparable financial information for rate-making, oversight, or other purposes. These variances, adopted by regulatory agencies, are referred to as regulatory accounting principles (RAP), which constitute a modified GAAP. The financial institutions regulatory agencies believe these specific limited departures from GAAP are necessary to adequately monitor and evaluate the safety and soundness of financial institutions. A discussion of some of these variances follows. Additional examples of variation from GAAP may be found in appendix IV.

While variances from GAAP exist, they do not affect public reporting for industries which report to the SEC, because the SEC requires companies to use GAAP. However, most of the entities reporting to the financial institutions' regulatory agencies do not report to the SEC. Generally only bank holding companies and savings and loan holding companies with more than 500 shareholders report to the SEC on a continuing basis under the Securities Exchange Act.

We found variances from GAAP at five of the financial institutions' regulatory agencies. For example, the Federal Deposit Insurance Corporation, while allowing intangible assets to be recorded, requires a bank to amortize intangible assets over a period not to exceed the lesser of the estimated useful life of such asset or 15 years. Under GAAP the period of amortization should not exceed 40 years. The Federal Home Loan Bank Board allows thrifts (savings and loan associations and savings banks) to recognize appreciation on fixed assets such as buildings, whereas GAAP requires recording an item at cost.

The treatment of in-substance defeasance--a situation where a bank relieves itself of a debt obligation by transferring assets to an irrevocable trust to pay off the debt--is a variance from GAAP allowed by OCC, FDIC, and the Federal Reserve. These agencies require their institutions to keep the liability on the books, whereas GAAP provides that the liability may be treated as extinguished in certain limited circumstances.<sup>5</sup>

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<sup>5</sup>The SEC officials informed us that this may be a difference of opinion on whether an irrevocable trust can, in fact, be created in this instance.

Generally the federal agency accounting standards and requirements for transportation and for energy and other areas are in accordance with generally accepted accounting principles for those particular industries. However, we identified two areas where variances exist. For example, at the Federal Communications Commission, treatment of capitalized leases varies from GAAP. Under GAAP, if a lease agreement meets one of four conditions generally understood to convey ownership benefits to the lessee, the leased property is treated as a capital asset and the lease is designated as a capital lease. If a lease does not meet any of the four conditions, it is then treated as an operating lease. FCC treats all leases, regardless of contract provisions, as operating leases; that is, all lease payments are treated as an expense in the period in which they are made.

#### ENFORCEMENT OF ACCOUNTING AND AUDITING STANDARDS

The federal government requires special reports on numerous business dealings and activities. To ensure that the information provided is correct and reliable, the federal government makes extensive use of independent audits of this information. Those audits, almost universally, require compliance with either the standards issued by the AICPA or GAO to help ensure a high degree of quality for those reports. (See "Auditing Standards" in appendix I.)

Each of the agencies we identified had procedures for reviewing compliance with established standards and could take remedial actions against noncomplying entities. We obtained, but did not audit, enforcement statistics for the most recent year available and have provided these statistics in appendix II. A brief discussion of agency enforcement actions follows. Details by agency may be found in appendix V.

#### Determining compliance

Most agencies perform compliance reviews, selective audits, and desk audits to determine if reporting entities were complying with agency requirements. The agencies regulating financial institutions place considerable attention on ensuring compliance with agency standards. In 1979, the Federal Financial Institutions Examination Council (Council), an interagency group representing the federal agencies regulating financial institutions, was established to help coordinate the supervisory activities of the federal agencies regulating financial institutions. The Council is empowered to prescribe uniform principles, standards, and report forms for federal examination of financial institutions. Of the six agencies identified as regulating financial institutions, all are members of the Council except the Farm Credit Administration.

To determine compliance, individual financial institution regulatory agencies review bank operations. For example, the Federal Home Loan Bank Board conducts on-site examinations to determine compliance with accounting standards. The transportation and energy agencies also take measures to ensure compliance with their standards. For example, the Maritime Administration's Office of Financial Approvals and DOT's Inspector General review companies' submissions of data. The Federal Energy Regulatory Commission audit staff performs compliance audits of its regulated utilities and desk audits of forms companies submit.

#### Remedial actions to gain compliance

When agencies find noncompliance with standards, remedial actions may be taken. Most agencies' procedures for addressing noncompliance can be generally classified as administrative or legal in nature. There is some disagreement as to whether certain actions are properly categorized as administrative or legal. Administrative actions include writing letters to the entity requesting correction or completion of data, negotiating with the entity to resolve a problem, or threatening to modify, curtail, or restrict the entity's participation in the program being regulated. Legal remedies, including injunctions and civil suits, are available in cases where administrative actions fail or are inappropriate.

The financial institutions' regulatory agencies use a number of remedies including: writing letters directing institutions to correct problems noted, meeting with institutions' Boards of Directors to direct them to take corrective action, issuing cease and desist orders, or initiating civil suits against the institution and its directors and officers as well as against the independent public accountants.

The transportation and energy agencies also have administrative and legal remedies available. For example, the ICC has the legal authority to fine rail carriers \$5,000 for knowingly not filing required information. REA can refuse further advances of funds, declare all unpaid principal and interest payable, take possession of property, and take action against a third party.

#### How agencies discipline independent auditing firms

You asked that we analyze the process agencies use for disciplining independent auditing firms. We found that 10 of the 19 standard-setting agencies, including four of the five discussed below require companies to have their financial statements audited annually. A few other agencies, while not specifically requiring an annual audit, require companies that have an audit to provide a copy of the audited statement

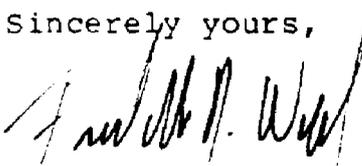
for the agency's review. We found that most agencies have no specific policies or programs for evaluating, reporting on, or seeking disciplinary action against accountants whose work the agencies may have found flawed or of poor quality. In fact, we found only five agencies, other than the SEC, that have means for disciplining independent auditing firms.

At the FHLBB, examiners determine if the auditor conducted the work in accordance with generally accepted auditing standards and whether FHLBB should accept the audit. The FHLBB, on discovering noncompliance with auditing standards, can reject an audit of the bank and arrange for another audit. The FSLIC, which is under the direction of the FHLBB, can sue the auditor who did substandard work. In addition FHLBB can and does, when deemed appropriate, refer cases to the AICPA Ethics Committee and to applicable state licensing authorities. At the Rural Electrification Administration (REA), officials must approve the CPA firms which audit REA borrowers and can negotiate termination of CPA firms whose work is deficient by REA's standards. The Commodity Futures Trading Commission (CFTC) can take legal action against CPA firms whose work is found to be inadequate. The CFTC has cooperated with a state board of accountancy in one case of disciplining an accountant.

The FDIC undertakes an investigation of the audit work performed by an independent accountant in each instance where a failed bank had been previously audited. The FDIC investigation is designed to determine if the audit was carried out properly and, if it was not, whether the audit failure was the cause of or contributed to the damages suffered by the bank. The FDIC's Legal Division has a staff dedicated primarily to pursuing actions that seek compensation for damage connected with these audit failures. Finally, the Department of Transportation's Office of Inspector General reviews the work performed by independent auditors and has procedures for correcting deficient audit work or seeking sanctions.

We hope this information will be useful to you in your examination of the accounting and auditing profession. As arranged with your office, we are sending copies of this report to the heads of the agencies discussed in the report and to other interested parties.

Sincerely yours,



Frederick D. Wolf  
Director



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## ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
CAB	Civil Aeronautics Board
CASB	Cost Accounting Standards Board
CFR	Code of Federal Regulations
CFTC	Commodity Futures Trading Commission
COMSAT	Communications Satellite Corporation
CPA	Certified Public Accountant
DOT	Department of Transportation
ERISA	Employee Retirement Income Security Act
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCC	Federal Communications Commission
FDIC	Federal Deposit Insurance Corporation
FERC	Federal Energy Regulatory Commission
FFIEC	Federal Financial Institutions Examination Council
FHLBB	Federal Home Loan Bank Board
FMC	Federal Maritime Commission
FRS	Federal Reserve System
FSLIC	Federal Savings and Loan Insurance Corporation
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office

## ABBREVIATIONS

ICC	Interstate Commerce Commission
IRS	Internal Revenue Service
NCUA	National Credit Union Administration
NFA	National Futures Association
NVO	Nonvessel-operating Common Carrier
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OLR	Office of Labor Racketeering
OPWBP	Office of Pension and Welfare Benefit Programs
PBGC	Pension Benefit Guaranty Corporation
PL	Public Law
RAP	Regulatory Accounting Principles
RAPB	Railroad Accounting Principles Board
REA	Rural Electrification Administration
SEC	Securities and Exchange Commission
TVA	Tennessee Valley Authority
UMTA	Urban Mass Transportation Administration
US	United States
USC	United States Code

FEDERAL AGENCY ACCOUNTING AND AUDITING REQUIREMENTS AFFECTING PRIVATE SECTOR COMPANIES

Federal entity	Industry	Number of industry units reporting (approx.)	ACCOUNTING STANDARDS						AUDITING STANDARDS (note 1)			Entities filing reports with SEC (note 3)	
			Prescribe						GAAS or GAGAS	Auditor	Audit frequency		
			Financial statement form and content	Special reports	Uniform accounts	Records retention	Accounting systems	GAAP required (note 2)					
FINANCIAL INSTITUTIONS													
Board of Governors of the Federal Reserve System	U.S. branches, agencies and New York State investment companies of foreign banks	491 (note 4)	Yes	Yes	No	Yes	No	Generally	No	N/A	N/A	No	
	State-chartered member commercial banks	1,071	Yes	Yes	No	Yes	No	Generally	No	N/A	N/A	No	
	Bank holding companies	6,146	Yes	Yes	No	Yes	No	Generally	GAAS	OPA	Annual	Yes (note 6)	
	Edge and agreement corporations	141	Yes	Yes	No	Yes	No	Generally	No	N/A	N/A	No	
	State-chartered member commercial banks with securities registered pursuant to the 1934 Securities Exchange Act	30 (note 5)	Yes	Yes	No	Yes	No	Yes	No	N/A	N/A	No	
Comptroller of the Currency	National banks	4,900	Yes	Yes	No	No	No	Generally	N/A	N/A	N/A	No	
Farm Credit Administration	Farm credit banks	37	Yes	Yes	Yes	Yes	No	Generally	GAAS	FCA	Annual	No	
	Farm credit associations	790	Yes	Yes	Yes	Yes	No	Generally	GAAS	FCA	Every 3 years	No	
Federal Deposit Insurance Corporation	FDIC insured state-chartered nonmember commercial banks	8,500	Yes	Yes	No	No	No	Generally	N/A	N/A	N/A	No	
	FDIC insured state-chartered savings banks	291	Yes	Yes	No	No	No	Generally	N/A	N/A	N/A	No	
	FDIC insured state-chartered nonmember banks with securities registered under the 1934 Securities Act	234 (note 5)	Yes	Yes	No	No	No	Generally	N/A	N/A	N/A	No	

## FEDERAL AGENCY ACCOUNTING AND AUDITING REQUIREMENTS AFFECTING PRIVATE SECTOR COMPANIES

Federal entity	Industry	Number of Industry units reporting (approx.)	ACCOUNTING STANDARDS						AUDITING STANDARDS (note 1)			Entities filings reports with SEC (note 3)
			Financial statement form and content	Prescribe					GAAS or GAGAS	Auditor	Audit frequency	
				Special reports	Uniform accounts	Records retention	Accounting systems	GAAP required (note 2)				
Federal Home Loan Bank Board	Federal savings and loan associations	1,650	Yes	Yes	No	No	No	Generally	GAAS	Internal auditor or CPA	Annual	No
	State savings and loan associations	1,650	Yes	Yes	No	No	No	Generally	GAAS	Internal auditor or CPA	Annual	No
	Savings and loan holding companies	234	Yes	Yes	No	No	No	Generally	GAAS	Internal auditor or CPA	Annual	Yes (note 6)
National Credit Union Administration	Federal credit unions	10,962	Yes	No	No	No	No	Yes	No	Supervisory committee or CPA	Annual	No
	Federally insured state chartered credit unions	4,928	Yes	No	No	No	No	Yes	No		Annual	No
TRANSPORTATION												
Civil Aeronautics Board (note 7)	Civil air trans- port industry	80 (note 8)	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A	Yes
Federal Maritime Commission	Shipping	50	Yes	Yes	No	No	No	Yes	N/A	N/A	N/A	Yes
Interstate Commerce Commission	Railroads, trucks, buses, ships	2,869	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A	Yes

## FEDERAL AGENCY ACCOUNTING AND AUDITING REQUIREMENTS AFFECTING PRIVATE SECTOR COMPANIES

Federal entity	Industry	Number of industry units reporting (approx.)	ACCOUNTING STANDARDS						AUDITING STANDARDS (note 1)			
			Financial statement form and content	Special reports	Uniform accounts	Records retention	Accounting systems	GAAP required (note 2)	GAAS or GAGAS	Auditor	Audit frequency	Entities filing reports with SEC (note 3)
Maritime Administration	Shipping	350	Yes	Yes	Yes	Yes	No	Yes	GAAS	CPA	Annual	Yes
Railroad Accounting Principles Board	Railroads	The Board is beginning to develop uniform cost accounting principles for the rail industry. The Board held its first meeting on January 7, 1985.										
Urban Mass Transportation Administration	Mass transit systems	500	Yes	Yes	Yes	Yes	No	Yes	GAGAS	OIG CPA	Quarterly Annual	No
ENERGY AND OTHER												
Commodity Futures Trading Commission	Futures commission merchants	400	Yes	Yes	No	Yes	No	Yes	GAAS	CPA In-House	Annual Periodic	No
	Introducing brokers											
	Independent	200	Yes	Yes	No	Yes	No	Yes	GAAS	CPA	Annual	No
	Guaranteed	600	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No
	Commodity pool operators	1,200	Yes	Yes	No	Yes	No	Yes	GAAS	CPA In-House	Annual Periodic	No
	Leverage transaction merchants (note 9)		Yes	Yes	No	Yes	No	Yes	GAAS	CPA In-House	Annual Periodic	No
	Futures exchanges	13	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No
Cost Accounting Standards Board		Defunct entity but cost accounting standards still are used in certain negotiated defense contracts and subcontracts.										
Federal Communications Commission	Telephone carriers	67	Yes	Yes	Yes	Yes	Yes	Generally	N/A	N/A	N/A	Yes
	Domestic telegraph carrier (Western Union)	1	Yes	Yes	Yes	Yes	Yes	Generally	N/A	N/A	N/A	Yes
	International record carriers	6	Yes	Yes	Yes	Yes	Yes	Generally	N/A	N/A	N/A	Yes
	International satellite (COMSAT)	1	Yes	Yes	Yes	Yes	No	Generally	N/A	N/A	N/A	Yes

FEDERAL AGENCY ACCOUNTING AND AUDITING REQUIREMENTS ON PUBLIC CORPORATIONS

Federal entity	Industry	Number of Industry units reporting (approx.)	ACCOUNTING STANDARDS						AUDITING STANDARDS (note 1)			Entities filing reports with SEC (note 3)
			Financial statement form and content	Prescribe					GAAS or GAGAS	Auditor	Audit frequency	
				Special reports	Uniform accounts	Records retention	Accounting systems	GAAP required (note 2)				
Federal Energy Regulatory Commission	Electric utilities	238	Yes	Yes	Yes	Yes	Yes	Yes	GAAS	In-house	Cyclical	Yes
	Hydroelectric licensees	(note 9)	Yes	Yes	Yes	Yes	Yes	Yes	GAAS	CPA	Annual	
	Natural gas pipeline companies	91	Yes	Yes	Yes	Yes	Yes	Yes	GAAS	In-house CPA	Cyclical Annual	Yes
	Oil pipeline companies	154	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A	Yes
Office of Pension and Welfare Benefit Programs (Labor)	Various	975,000	Yes	Yes	No	No	No	Yes	GAAS	Certified or licensed public accountant	Some annual	No
Rural Electrification Administration	Telephone companies	1,000	Yes	Yes	Yes	Yes	Yes	Yes	GAAS	CPA	Annual	No
	Telephone cooperatives	(note 9)	Yes	Yes	Yes	Yes	Yes	Yes	GAAS	CPA	Annual	No
	Electric cooperatives	1,100	Yes	Yes	Yes	Yes	Yes	Yes	GAAS	CPA	Annual	No
					(note 10)							
Tennessee Valley Authority	Electric cooperatives	50	Yes	Yes	Yes	Yes	No	Yes	GAAS	CPA	Annual	No
					(note 10)							

NOTES TO SCHEDULE OF FEDERAL ACCOUNTING AND AUDITING  
REQUIREMENTS AFFECTING PRIVATE SECTOR COMPANIES

NOTE 1

"Not applicable (N/A)" in the columns under "auditing standards" denotes that the agency does not require reporting entities to have an audit.

NOTE 2

The "GAAP required" column reflects requirements that exist by statute, regulation, contract, or by virtue of using CPAs. Several agencies prescribe accounting requirements and treatment of transactions that differ from generally accepted accounting principles (GAAP). These GAAP-modified principles are sometimes called regulatory accounting principles. (For details, see appendix IV.)

NOTE 3

The Securities Act of 1933 requires issuers of securities making public offerings of securities in interstate commerce or through the mails, directly or by others on their behalf, to file with the SEC registration statements containing financial and other pertinent data about the issuer and the securities being offered. The Securities Exchange Act of 1934 requires certain companies to file registration applications and annual and other reports with national securities exchanges and the SEC (companies whose securities are listed on the exchanges, companies which have assets of \$3 million or more and 500 or more shareholders of record, and companies which distributed securities pursuant to a registration statement declared effective by the SEC under the Securities Act of 1933).

Securities of financial institutions are exempt from the registration requirements of the Securities Act of 1933. The Securities Exchange Act of 1934 grants the powers, functions, and duties vested in the SEC to administer and enforce sections 12, 13, 14(a), 14(c), 14(d), 14(f), and 16 of the 1934 Act (1) with respect to national banks and banks operating under the Code of Law of the District of Columbia, to the Comptroller of the Currency, (2) with respect to all other member banks of the Federal Reserve System to the Board of Governors of the Federal Reserve System, (3) with respect to all other insured banks to the Federal Deposit Insurance Corporation, and (4) with respect to institutions the accounts of which are insured by the Federal Savings and Loan Insurance Corporation to the Federal Home Loan Bank Board. The above named agencies have the power to make such rules and regulations as may be necessary for the execution of the functions vested in them as provided by the sections listed above. The rules and regulations implementing the above listed sections should be substantially similar to those issued by the SEC.

Although securities of financial institutions are exempt from the registration requirements of the Securities Act of 1933, if these institutions form holding companies, they may report to the SEC in an exchange offer context under the 1933 Act, and if they have more than 500 shareholders, they must report to the SEC on a continuing basis under the 1934 Act.

Section 204 of the Federal Power Act requires that no public utility shall issue any security, or assume any obligation or liability as guarantor, indorser, surety, or otherwise in respect of any security of another person, unless and until, and then only to the extent that, upon application by the public utility the Commission (FERC) by order authorizes such issue or assumption of liability. This section also states that any public utility whose security issues are approved by the Commission under this section may file with the SEC duplicate copies of reports filed with FERC in lieu of the reports, information, and documents required under sections 77g, 781, and 78m of title 15 (relating to registration and reporting requirements).

NOTE 4

The supervisory authority of the FRS over these offices is "residual" to that of the chartering agency or, in the case of federally insured U.S. branches of foreign banks, to the FDIC.

NOTE 5

The 30 banks with securities registered under the 1934 Securities Act are also included in the 1,071 state-chartered member commercial banks (FRS). These 30 banks are not required to have audits by CPA firms, but if they elect to have such audits, the audits must be conducted in accordance with GAAS. The 234 banks with securities registered under the 1934 Securities Act are also included in the 8,791 FDIC insured state-chartered nonmember commercial banks and the FDIC insured state-chartered savings banks.

NOTE 6

Of the 6,146 bank holding companies reporting to FRS, approximately 1,000 also report to the SEC. Approximately 234 consolidated "families" of holding companies report to the PHLBB. Less than half of these also report to the SEC.

NOTE 7

On December 31, 1984, the Civil Aeronautics Board was abolished and its air carrier accounting and reporting functions were transferred to the Office of Aviation Information Management, Department of Transportation.

NOTE 8

The Civil Aeronautics Board regulated about 440 individual companies. Although all supplied some data, only 80 airlines had to supply detailed financial information.

NOTE 9

No data available.

NOTE 10

The Rural Electrification Administration (REA) requires telephone companies and cooperatives to use the uniform system of accounts prescribed by the Federal Communications Commission. REA and the Tennessee Valley Authority require electric cooperatives to use the uniform system of accounts prescribed by the Federal Energy Regulatory Commission.

FEDERAL AGENCY ENFORCEMENT/OVERSIGHT ACTIVITIES

<u>Federal entity</u>	<u>Industry</u>	Number of compliance reviews (year)	Enforcement authority	ENFORCEMENT OF OVERSIGHT		Type of action available
				Number of adverse actions taken against ----- <u>Industry</u>	<u>Auditor</u>	
<b>FINANCIAL INSTITUTIONS</b>						
Board of Governors of the Federal Reserve System	State-chartered commercial banks	2,585 (1984)	Administrative Legal	80 (1984)	None	Cease and desist orders
	Bank holding companies Edge and agreement corporations U.S. branches, agencies, and New York State investment companies of foreign banks State-chartered commercial banks with securities registered pursuant to the 1934 Securities Exchange Act					Civil money penalty Written agreement Memorandum of understanding Removal orders Capital directives (note 1)
Comptroller of the Currency	National banks	4,211 (1983)	Administrative Legal	444 (1983)	(note 2)	Civil Injunctive and administrative actions Civil money penalty Formal administrative agreements Memorandum of understanding Remove officers and/or directors (note 1)
Farm Credit Administration	Farm credit banks Farm credit associations	781 (1984)	Administrative only	(note 3)	(note 2)	Request bank/assn action Modify or amend bank/assn charter and bylaws Include deficiencies in report to Board Require mergers Declare Institutions Insolvent and place them in receivership

FEDERAL AGENCY ENFORCEMENT/OVERSIGHT ACTIVITIES

<u>Federal entity</u>	<u>Industry</u>	<u>Number of compliance reviews (year)</u>	<u>Enforcement authority</u>	<u>ENFORCEMENT OF OVERSIGHT</u>		<u>Type of action available</u>
				<u>Number of adverse actions taken against Industry</u>	<u>Auditor</u>	
Federal Deposit Insurance Corporation	FDIC insured state-chartered non-member commercial banks	9,751 (1984)	Administrative Legal	196 (note 2) (1984)		Cease and desist order Civil money penalty Stop insurance Remove officer Late filing penalty
	FDIC insured state-chartered savings banks					Memorandums of understanding Capital directives Seek compensation for damages connected with audit failures (note 1)
	FDIC insured state-chartered nonmember bank with securities registered under the 1934 Securities Act					
-----						
Federal Home Loan Bank Board	Federal savings and loan associations State savings and loan associations Savings and loan holding companies	2,449 (1983)	Administrative Legal	38 (1983)	2 (note 4)	Cease and desist order Civil suit against Officer/director Suspend/FSLIC can sue CPA Work with Board of Directors Supervisory agreement Remove and discipline individuals Refer CPA to AICPA Ethics Committee Reject unsatisfactory audit report (note 1)

## FEDERAL AGENCY ENFORCEMENT/OVERSIGHT ACTIVITIES

<u>Federal entity</u>	<u>Industry</u>	Number of compliance reviews <u>(year)</u>	<u>Enforcement authority</u>	<u>ENFORCEMENT OF OVERSIGHT</u>		<u>Type of action available</u>
				Number of adverse actions taken against ----- <u>Industry Auditor</u>		
National Credit Union Administration	Federal credit unions Federally insured state-chartered credit unions	10,628 (1984)	Administrative Legal	38 (note 2) (1984)		Cancel charter (note 1)
-----						
TRANSPORTATION						
Civil Aeronautics Board	Civil air trans- port industry	8 (1984)	Administrative Legal	1 (1984)	None	Negotiation Statutory penalties
-----						
Federal Maritime Commission	Shipping	50 (1984)	Administrative Legal	3 (note 2) (est) (1984)		Letters Fines Reject tariff revisions Rate reasonableness determinations
-----						
Interstate Commerce Commission	Railroads, trucks, buses, ships	45 (1984)	Administrative Legal	None (note 2)		Negotiation Fines
-----						

## FEDERAL AGENCY ENFORCEMENT/OVERSIGHT ACTIVITIES

<u>Federal entity</u>	<u>Industry</u>	Number of compliance reviews (year)	Enforcement authority	ENFORCEMENT OF OVERSIGHT		
				Number of adverse actions taken against ----- <u>Industry Auditor</u>		Type of action available
Maritime Administration	Shipping	350 (est) (1984)	Administrative only	None	None	Deny subsidies Raise loan guar- antee fee Drop firm from program Correct deficit audit work or seek sanctions
Railroad Accounting Principles Board	Railroads			The Board is beginning to develop uniform cost accounting principles for the rail industry. The Board held its first meeting on January 7, 1985.		
Urban Mass Transportation Administration	Mass transit systems	420 (1984)	Administrative Legal	None	None	Negotiation Cut funds Admonishing letter Correct deficit audit work or seek sanctions

## FEDERAL AGENCY ENFORCEMENT/OVERSIGHT ACTIVITIES

<u>Federal entity</u>	<u>Industry</u>	Number of compliance reviews <u>(year)</u>	<u>Enforcement authority</u>	<u>ENFORCEMENT OF OVERSIGHT</u>		<u>Type of action available</u>
				Number of adverse actions taken against ----- <u>Industry Auditor</u>		
ENERGY AND OTHER						
Commodity Futures Trading Commission	Futures commission merchants	3,274 (1984)	Administrative Legal	68 (1984)	1 (note 7)	Permanent injunction Preliminary injunction
	Introducing brokers	(note 5)		(note 6)		Appoint a receiver Cease and desist orders
	Commodity pool operators					Civil money penalty Suspend, revoke or deny registration
	Leverage transaction merchants					Deny contract marketing privileges
	futures exchanges					Sue CPA Deny CPA right to practice before the Commission
-----						
Cost Accounting Standards Board		Defunct entity but cost accounting standards still are used in certain negotiated defense contracts and subcontracts.				
-----						
Federal Communications Commission	Telephone carriers	41	Administrative	(note 3)	(note 2)	Warnings
	Domestic telegraph carrier (Western Union)	(1984) (note 8)	Legal			Hearings Fines
	International record carriers					Cease and desist orders
	International Satellite (COMSAT)					

FEDERAL AGENCY ENFORCEMENT/OVERSIGHT ACTIVITIES

APPENDIX II

<u>Federal entity</u>	<u>Industry</u>	Number of compliance reviews (year)	<u>Enforcement authority</u>	<u>ENFORCEMENT OF OVERSIGHT</u>		<u>Type of action available</u>
				Number of adverse actions taken against Industry	Number of adverse actions taken against Auditor	
Federal Energy Regulatory Commission	Electric utilities Hydroelectric licensees Natural gas pipeline companies Oil pipeline companies	87 (1983) (note 9)	Administrative Legal	(note 10)	None	Refunds to customer
Office of Pension and Welfare Benefit Programs (Labor)	Various	2,454 (1984)	Administrative Legal	1,378 (1984) (Note 11)	(note 2)	Negotiation Litigation Criminal actions
Rural Electrification Administration	Telephone companies Telephone cooperatives Electric cooperatives	1,505 (1984)	Administrative Legal	None	None	Negotiation Refuse further advances of funds Declare all unpaid principal and interest payable Take possession of property Take action against third party
Tennessee Valley Authority	Electric cooperatives	(note 3)	Administrative Legal	None	(note 2)	Legal recourse Assess penalties

APPENDIX II

NOTES TO SCHEDULE OF FEDERAL  
ENFORCEMENT/OVERSIGHT ACTIVITIES

NOTE 1

The types and numbers of actions taken by the indicated federal entity follow. The statistics are for the most recent calendar year, (except as noted), for which the information was readily available.

<u>Federal entity</u>	<u>Year</u>	<u>Type and Number of Actions Taken</u>
Federal Reserve	1984	80 total formal actions completed (some of which involved more than one institution or individual) Cease and desist orders-22 Temporary cease and desist orders-4 Civil money penalties-22 Written agreements-60 Orders of removal or prohibition-10
Comptroller of the Currency	1983	Cease and desist orders and administrative agreements-274 Civil money penalties-170
FDIC	1984	Cease and desist orders-138 Civil money penalties-13 Stop insurance-32 Remove officer-13
FHLBB	1983	Remove or discipline individuals-21 Cease and desist orders-17
NCUA	Fiscal Year 1984	Cancel charter (involuntary liquidation)- 38

NOTE 2

The agency does not have a systematic enforcement or oversight program to review the auditor's work, even in cases where the agency requires an audit.

NOTE 3

No statistics available.

NOTE 4

The Federal Savings and Loan Insurance Corporation (FSLIC) has suits pending against two accounting firms. One suit was filed in calendar year 1984 and the other in 1985. A third suit, filed in calendar year 1982, was settled in May 1985.

NOTE 5

The Commodity Futures Trading Commission conducted 53 audits during 1984 involving 28 futures commission merchants, 22 commodity pool operators, and 3 leverage transaction merchants. It also reviewed 3,216 financial reports and completed five financial rule enforcement reviews of self regulatory organizations.

NOTE 6

The types and numbers of actions taken by the CFTC in fiscal year 1984 follow:

Administrative actions (50 total actions, some of which involved more than one company or individual)

--suspension, revocation, or denial of registration-62,

--denial of contract marketing privileges-71,

--cease and desist orders-107, and

--civil money penalties-\$3,500,800 (76 individuals or firms)

Court actions (18 total actions, some of which involved more than one company or individual)

--permanent injunctions-56,

--preliminary injunctions-35, and

--funds in receivership-more than \$9 million (13 equity receivers)

NOTE 7

In fiscal year 1983 the Commission filed an administrative complaint against an accounting firm and two of its accountants charging that they violated several Commission regulations while conducting a certified audit of a futures commission merchant. The Commission's action against the accountant charged (1) lack of independence and (2) failure to adhere to generally accepted accounting principles. In fiscal year 1984 the Commission accepted an offer of settlement from the parties involved and imposed, among others, sanctions (1) requiring the accountants

to cease and desist from violating Commission regulations and (2) denying the accountants the privilege of appearing before the Commission as accountants for a specific period of time.

NOTE 8

In fiscal year 1984, FCC completed 21 audits and reviewed 20 annual reports.

NOTE 9

Of the 87 compliance reviews conducted in fiscal year 1983 by FERC, 49 were of electric utilities, 29 were of natural gas pipeline companies, and 9 were of oil pipeline companies. Approximately 99 percent of the hydroelectric licensees are electric utilities. Separate audit figures are not kept on these licensees.

NOTE 10

In fiscal year 1983 as a result of audits of regulated entities, FERC ordered refunds to customers totaling \$796,790. In fiscal year 1984 refunds totaled \$946,119. Not included in this figure is a refund of \$16,945,361, also ordered in 1984 as a result of a compliance review.

NOTE 11

In addition to the adverse actions taken by OPWBP officials, the Office of Labor Racketeering (OLR), within the Office of the Inspector General, obtained nine convictions involving benefit plan officials for the period October 1, 1984 through March 31, 1985. Indictments relating to benefit plans during the same period totaled 13.

LEGAL AUTHORITIES FOR SETTING  
ACCOUNTING AND AUDITING STANDARDS

FINANCIAL INSTITUTIONS

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL (FFIEC)<sup>6</sup>

Prescribes uniform principles, standards, and report forms for the federal examination of financial institutions by (1) the Board of Governors of the Federal Reserve System, (2) Federal Deposit Insurance Corporation, (3) Federal Home Loan Bank Board, (4) National Credit Union Administration, and (5) the Office of the Comptroller of the Currency. These five agencies make up the Council. The Council also promotes uniformity in the supervision of financial institutions.

12 USC 3303 establishes the Financial Institutions Examination Council, composed of five members: (1) the Comptroller of the Currency, (2) the Chairman of the Board of Directors of the FDIC, (3) a Governor of the Board of Governors of the Federal Reserve System designated by the Chairman of the Board, (4) the Chairman of the FHLBB, and (5) the Chairman of the NCUA Board.

12 USC 3305 gives the Council the authority to establish uniform principles and standards and report forms for the examination of financial institutions which shall be applied by the federal financial institutions regulatory agencies. This section also mandates that the Council develop uniform reporting systems for federally supervised financial institutions, their holding companies, and non-financial institution subsidiaries of such institutions or holding companies.

12 CFR 1101.2 sets out the authority and functions of the Council.

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<sup>6</sup>The Council is not included in the 19 standard-setting agencies, even though it prescribes principles and standards. However, the Council does not regulate any financial institutions or have the authority to enforce the prescribed standards. It is the function of the Council members, the agencies regulating financial institutions, to enforce the standards.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Supervises, examines, and approves the activities of bank holding companies. The Board also establishes reserve requirements--the percentage of total deposits that institutions must maintain either on deposit with Federal Reserve Banks or in the form of vault cash. The Board sets margin requirements on credit extended by brokers, banks, or others to purchase or carry stock. The Federal Reserve Banks, with the approval of the Federal Reserve Board, set the discount rate--the interest rate depository institutions are charged for borrowing from the Federal Reserve Banks. The Federal Reserve Banks also conduct field examinations (often on a joint basis with state banking departments) of state member banks and all bank holding companies. In addition, bank holding companies must obtain the approval of the Federal Reserve Board to be established and to conduct various activities. This approval authority is sometimes delegated to Reserve Banks.

12 USC 248 (a) authorizes and empowers the Board of Governors to examine at its discretion the accounts, books, and affairs of each Federal Reserve Bank and of each member bank and to require such statements and reports as it may deem necessary.

12 USC 325 states that, as a condition of membership, state banks shall be subject to examinations made by direction of the Board of Governors of the Federal Reserve System.

15 USC 781(i) vests in the Board of Governors of the Federal Reserve System the powers, functions, and duties that would otherwise be vested in the SEC to administer and enforce sections 12, 13, 14(a), 14(c), 14(d), 14(f), and 16 of the Securities Exchange Act of 1934 with respect to the securities of state member banks.

12 CFR part 206 sets out regulations relating to securities of state member banks. Specifically, 12 CFR 206.7 sets out the form and content of financial statements filed with the Board pursuant to part 206.

OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC)

The Comptroller, as the administrator of national banks, executes laws relating to national banks and promulgates rules and regulations governing the operations of the national and District of Columbia banks. Each bank is examined periodically by examiners. The Comptroller uses these evaluations in appraising the financial condition of the banks, the soundness of their operations, the quality of their management, and their compliance with laws, rules, and regulations. Between 200 and 250 national banks are publicly traded and have registered their securities with OCC under the Securities Exchange Act of 1934.

15 USC 78w(a)(1) authorizes the Office, among others, to make such rules and regulations as may be necessary to implement the provisions of the Securities Exchange chapter for which they are responsible.

15 USC 781(i) vests in the OCC the powers, functions, and duties that would otherwise be vested in the SEC to administer and enforce sections 12, 13, 14(a), 14(c), 14(d), 14(f), and 16 of the Securities Exchange Act of 1934 with respect to the securities of national banks and banks operating under the Code of Law for the District of Columbia.

15 USC 78m(b) (1) authorizes the Office (under 15 USC 781 (i)) to prescribe, in regard to reports made pursuant to the Securities Exchange chapter, the forms in which the required information shall be set forth, the items or details to be shown in the balance sheet and the earnings statement, and the methods to be followed in the preparation of reports.

12 CFR 11.7 sets forth the form and content of the financial statements filed with the Office as well as the requirements for an independent public accountant's audit of a national banking entity.

FARM CREDIT ADMINISTRATION (FCA)

Supervises, examines, and regulates activities of the borrower-owned banks that comprise the cooperative Farm Credit System. These institutions are the federal land banks and land bank associations, federal intermediate credit banks and production credit associations, and the banks for cooperatives.

12 USC 2243 gives the Federal Farm Credit Board the authority to establish the general policy for the guidance of the Farm Credit Administration and to approve the necessary rules and regulations for the implementation of the Farm Credit Act of 1971, as amended, not inconsistent with its provisions. The Federal Farm Credit Board may require such reports as it deems necessary from the institutions of the farm credit system.

12 USC 2244 gives the Governor of the FCA the responsibility for the execution of all of the administrative functions and duties of the FCA. The Governor is appointed by the Federal Farm Credit Board and is subject to the Board's general supervision and direction.

12 USC 2252 (a)(16) authorizes the FCA to prescribe rules and regulations necessary for carrying out the provisions of the Farm Credit Act of 1971, as amended.

12 USC 2254 sets out the requirements for examinations and reports required of each institution of the farm credit system.

12 CFR 618.8100 states that the FCA shall issue procedures and guidelines as necessary to facilitate carrying out requirements of the law and regulations. These procedures shall include such things as charts and descriptions of accounts, electronic data processing standards, and format and content of published financial statements.

12 CFR part 617 states that examinations, audits, and investigations shall be made by FCA examiners appointed by the Governor. Examiners shall have full authority to inquire into any and all matters which may affect the interests of the FCA. The Governor may employ an independent certified public accountant to conduct the required examinations or audits, and these CPAs shall be under the direction of the chief examiner.

12 CFR 618.8360 provides authorization for the disposition of obsolete records by banks and associations.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

Provides insurance coverage for bank deposits in some 15,000 banks and thrifts and periodic examinations of insured state-chartered banks which are not members of the Federal Reserve System. FDIC acts as receiver for all national banks placed in receivership and for state banks when it is appointed by state authority. In addition, FDIC administers the regulations and reporting provisions of the Securities Exchange Act with respect to securities issued by banks subject to provisions of that act and requires reports of condition, income, and other data of banks.

12 USC 1817(a) sets out the requirements for the quarterly "Reports of Condition and Income," which banks are required to file, and also gives FDIC access to bank examination reports.

12 USC 1817(k) authorizes the appropriate banking agencies to issue rules and regulations including definitions of terms to require the reporting and public disclosure of information by a bank or any executive officer or principal shareholder thereof concerning extensions of credit by the bank to any of its executive officers or principal shareholders, or the related interest of such persons.

12 USC 1819 Tenth authorizes the Board of Directors, FDIC, to prescribe such rules and regulations as it may deem necessary to carry out the provisions of this chapter or for any other law which it has the responsibility of administering or enforcing (except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to any other regulatory agency).

12 USC 1820(b) authorizes the Board of Directors, FDIC, to appoint examiners who shall have the power, on behalf of the Corporation, to examine any insured state nonmember bank, any bank making application to become an insured bank, and any closed insured bank or branch whenever, in the judgment of the Board, an examination is necessary. In addition to the above examinations, such examiners shall have the power to make special examinations to determine the condition of any bank for insurance purposes.

15 USC 781(i) vests in the FDIC the powers, functions, and duties that would otherwise be vested in the SEC to administer and enforce sections 12, 13, 14(a), 14(c), 14(d), 14(f), and 16 of the Securities Exchange Act of 1934 with respect to the securities of FDIC insured state-chartered nonmember banks.

12 CFR part 304 sets forth the forms, instructions, and reports required to be filed by insured banks.

12 USC part 335 issued pursuant to FDIC's authority under section 12(i) of the Securities Exchange Act of 1934, as amended, applies to all securities of an insured bank (including a foreign bank having an insured branch) which is neither a member of the Federal Reserve System nor a District bank (i.e., FDIC insured state-chartered nonmember banks) that are subject to the registration and reporting requirements of the 1934 Act. Among other things, the regulation establishes financial statement requirements and sets standards to be followed by independent public accountants who review financial statements prepared in accordance with part 335. The financial statements filed under this part shall be prepared in accordance with generally accepted accounting principles and practices applicable to banks. The FDIC may, from time to time, issue releases on accounting principles and practices to be used with respect to specific areas.

FEDERAL HOME LOAN BANK BOARD (FHLBB)

Supervises and regulates savings institutions and operates the Federal Savings and Loan Insurance Corporation (FSLIC). The Bank Board also directs the Federal Home Loan Bank System, which provides reserve credit to member savings institutions engaged in home mortgage lending.

12 USC 1437 authorizes the Board to supervise the Federal Home Loan Banks, to perform other duties specifically prescribed by this chapter, and to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary to carry out its functions.

12 USC 1440 authorizes the Board to require from time to time, but at least annually, examinations and reports of condition of all Federal Home Loan Banks in such form as the Board shall prescribe.

15 USC 781(i) vests in the FHLBB the powers, functions and duties that would otherwise be vested in the SEC to administer and enforce sections 12, 13, 14(a), 14(c), 14(d), 14(f), and 16 of the Securities Exchange Act of 1934 with respect to the securities of institutions insured by the Federal Savings and Loan Insurance Corporation, and federally-chartered FDIC-insured savings banks.

12 CFR 523.15 requires each bank member to make a report of its affairs at the end of each half of its fiscal year on forms prescribed by the Board.

12 CFR 524.12 requires that each Bank's accounting system be subject to approval by the Board and its accounting forms be subject to approval by the Director, Office of District Banks.

12 CFR 563d.1 implements the FHLBB's authority under section 12(i) of the Securities Exchange Act by adopting the rules, regulations, and forms used by the SEC.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC)<sup>7</sup>

Insures the safety of savings in thrift and home-financing institutions.

12 USC 1725(a) creates the FSLIC under the direction of the Federal Home Loan Bank Board (FHLBB) and operated by it under such bylaws, rules, and regulations as it may prescribe for carrying out the purposes of this subchapter with respect to insurance of savings and loan accounts.

12 CFR 563.23-3 sets forth the accounting principles and procedures each insured institution and service corporation shall employ for purposes of examinations by and reports to the Corporation.

12 CFR 563c.1 sets forth the form and content of financial statements to be filed by insured institutions.

12 CFR 563c.10 - 14 prescribes other accounting requirements.

12 CFR 563c.102 describes financial statement presentation.

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<sup>7</sup>FSLIC is not included as a separate entity in our discussion of the 19 standard-setting agencies because it is under the direction of the Federal Home Loan Bank Board. The Bank Board is included in our review.

NATIONAL CREDIT UNION ADMINISTRATION (NCUA)

The Board charters, insures, supervises, and examines federal credit unions and insures state-chartered credit unions which apply and qualify for share insurance.

12 USC 1756 subjects federal credit unions to supervision by the Board, NCUA, and requires them to make financial reports to the Board when it may require, but at least annually. Each federal credit union shall be subject to examination by any person designated by the Board.

12 USC 1766 authorizes the Board, NCUA, to prescribe rules and regulations necessary to carry out its functions.

12 USC 1784 deals specifically with examination of insured credit unions by the Board for insurance purposes.

12 CFR 701.12 states that the supervisory committee of each federal credit union shall make or cause to be made an annual audit in accordance with the requirements and standards set forth in the the Supervisory Committee Manual for Federal Credit Unions (NCUA 8023). 12 CFR 704.5 states that each corporate central federal credit union's supervisory committee shall cause an annual audit to be made by an independent, duly licensed auditor.

12 CFR 701.13 requires each operating federal credit union to file with NCUA semiannual financial and statistical reports on Form NCUA 5300 or revised Forms FCU 109 (a,b,c,) (with supplement).

TRANSPORTATIONCIVIL AERONAUTICS BOARD (CAB)

Regulated the civil air transport industry within the United States and between the United States and foreign countries in the interest of foreign and domestic commerce of the United States, the postal service, and the national defense. Within this framework, the Board granted licenses to provide air transportation service and approved or disapproved certain types of proposed agreements and corporate relationships involving air carriers. The Board provided for the design, prescription, and administration of a uniform system of accounts and reports, and determined carrier conformance with prescribed accounting and reporting regulations. Pursuant to the Airline Deregulation Act of 1978, the Board's authority expired on December 31, 1984. Its air carrier accounting and reporting functions were transferred to the Department of Transportation. The legal authority cited below resides with the Secretary, Department of Transportation.

49 USC 329 gives the Secretary of Transportation the authority to collect and collate transportation information the Secretary decides will contribute to the improvement of the transportation system of the United States, including information on civil aeronautics.

49 USC 1377(a) gives the CAB the authority to require annual and other reports from any air carrier or foreign air carrier and to prescribe the manner and form in which such reports shall be made.

49 USC 1377(d) authorizes the CAB to prescribe the forms of any and all accounts, records, and memoranda to be kept by air carriers.

14 CFR part 241 sets out the Uniform System of Accounts and Reports for Large Certified Air Carriers.

14 CFR 248.2 requires that all air carriers subject to 14 CFR part 241 shall file, with the Board's Office of the Comptroller, a copy of its annual audit report, made by an independent public accountant, along with all schedules, exhibits, and certificates included as part of the report. If no annual audit is performed, the air carrier must file a statement with the Board's Office of the Comptroller stating that fact.

14 CFR part 249 sets out requirements for preservation of air carrier records.

FEDERAL MARITIME COMMISSION (FMC)

Regulates common carriers and other persons engaged in the offshore waterborne commerce of the United States. The Commission prescribes and administers programs to ensure compliance with the provisions of the shipping statutes. In doing so, it accepts or rejects tariff filings, regulates rates in the domestic offshore trades, issues or denies the issuance of licenses to persons desiring to engage in ocean freight forwarding activity, and conducts field investigations and audits of the activities and practices of those under its jurisdiction.

46 USC appendix 841a authorizes the Commission to make such rules and regulations as may be necessary to carry out the provisions of this chapter (chapter 23).

46 USC appendix 820 allows that the Commission and the Secretary of Transportation may require any common carrier by water in interstate commerce, or other persons subject to this chapter, to file with it or him any periodical or special report, or any account, record, rate or charge, or any memorandum of any facts and transactions appertaining to the business of such carrier or other person subject to this chapter, in the form and within the time prescribed by the Commission or Secretary.

46 USC appendix 817(a)(4) authorizes the Commission to prescribe the form and manner in which tariffs required by this section be published and filed.

46 USC appendix 832 states that the chapter shall not be construed to affect the powers or jurisdiction of the ICC, nor to confer upon the FMC concurrent power or jurisdiction over any matter within the power or jurisdiction of the ICC, nor shall this chapter be construed to apply to intrastate commerce.

46 CFR part 550 establishes rules governing the acceptance or rejection of tariffs in the domestic offshore trades.

46 CFR part 552 sets forth the requirements for financial reports to be filed by common carriers by water in the domestic offshore trades (FMC Forms No. 377 and 378).

46 CFR part 553 prescribes the requirement for financial exhibits and schedules to be filed by nonvessel-operating common carriers (NVO) in the domestic offshore trades (FMC Form 579). This part also requires that every NVO maintain its records and books in an orderly and systematic manner and shall be made available upon request for examination by appropriate Commission personnel.

46 CFR part 555 establishes rules governing audits by FMC auditors of the books and records of carriers engaged in the domestic offshore trades of the United States. Such audits are necessary in order that the Commission may discharge its substantive regulatory duties under the Intercoastal Shipping Act 1933, and section 18(a) of the Shipping Act, 1916, by verifying the required reports.

INTERSTATE COMMERCE COMMISSION (ICC)

Regulates interstate surface transportation, including railroads, trucking firms, bus companies, water carriers, freight forwarders, transportation brokers, and a coal slurry pipeline. Regulatory laws vary; however, they usually involve certification of purchases, mergers, carrier entry rates, and adequacy of railroad service. The ICC also prescribes accounting rules, awards reparations, and administers laws relating to railroad bankruptcy.

49 USC 11142 authorizes the ICC to prescribe a uniform accounting system for classes of carriers providing, and brokers for, transportation subject to the jurisdiction of the Commission under subchapters II, III, and IV of chapter 105 of 49 USC.

49 USC 11144 authorizes the ICC to prescribe the form of records required by those entities subject to the Commission's jurisdiction.

49 USC 11909 sets out penalties for record keeping and reporting violations for those entities under Commission jurisdiction.

49 CFR parts 1200 - 1299 sets forth the requirements for a uniform system of accounts, other reports, and records.

MARITIME ADMINISTRATION

Administers subsidy programs under which the federal government, subject to statutory limitations, pays the difference between certain costs of operating ships under the U.S. flag and foreign competitive flags on essential services. It provides financing guarantees for the construction, reconstruction, and reconditioning of old ships and enters into capital construction fund agreements which grant tax deferrals on monies to be used for the acquisition, construction, or reconstruction of ships. Effective August 6, 1981, the Maritime Administration was transferred from the Department of Commerce to the Department of Transportation.

46 USC appendix 1114(b) authorizes the Federal Maritime Commission and the Secretary of Transportation to adopt all necessary rules and regulations to carry out the powers, duties, and functions vested in them by this chapter.

46 USC appendix 1211 authorizes the Secretary of Transportation, for every contract he executes under the provisions of subchapter VI or VII of this chapter for essential service in foreign commerce, to require the contractor to keep his books, records, accounts, etc. in such form and under such regulation as may be prescribed by the Secretary, provided they do not duplicate the requirements of the ICC. The Secretary is also authorized to examine and audit the books, records, and accounts of persons referred to in this section whenever he may deem it necessary or desirable.

46 CFR part 232 provides uniform financial reporting requirements applicable to all contractors submitting required financial reports or other financial information in accordance with agreements entered into under provisions of titles II, V, VI, VII, and XI of the Merchant Marine Act, 1936, as amended, and the Shipping Act, 1916, as amended. These reporting requirements consist of a chart of accounts and standard financial report formats.

46 CFR part 252 prescribes regulations for implementing requirements relating to the operating-differential subsidy for bulk cargo vessels engaged in essential foreign commerce of the United States. Specifically, 46 CFR 252.24 prescribes financial and other reporting requirements.

46 CFR part 281.1 prescribes regulations relating to the submission of financial statements by liner vessel companies under their operating-differential subsidy contracts.

46 CFR part 298 prescribes regulations implementing the provisions of title XI of the Merchant Marine Act, 1936,

as amended by P.L. 92-507 (46 USC 1271 - 1279) governing federal financial assistance. Specifically, 46 CFR 298.37 sets forth the authority of the Secretary to audit and examine the books, records and book of accounts of companies with ship financing guarantees. 46 CFR 298.42 prescribes the requirement for an annual audit and financial reporting by companies with ship financing guarantees.

46 CFR 309.6 prescribes the reporting requirements of Capital Construction Fund contract holders to account for activities made in the funds.

RAILROAD ACCOUNTING PRINCIPLES BOARD (RAPB)

The RAPB is charged with the task of establishing, within a 2-year period, a body of principles governing the determination of economically accurate railroad costs. Upon the establishment of these principles, the ICC shall promptly promulgate rules to implement and enforce such principles. The Board has a 3-year life after the members of the Board are appointed. The Board held its swearing-in ceremony and first meeting on January 7, 1985.

49 USC 11161 establishes a Railroad Accounting Principles Board within and responsible to the legislative branch.

49 USC 11162 requires the Board to establish principles governing the determination of economically accurate railroad costs within 2 years after the appointment of the Board members.

49 USC 11163 requires the ICC to promulgate rules to implement and enforce the cost accounting principles established by the Board.

URBAN MASS TRANSPORTATION ADMINISTRATION (UMTA)

Provides grants or loans to assist communities in acquiring or improving operating equipment and facilities needed for urban mass transit systems, both public and private.

49 USC 1611 requires the Secretary of Transportation by January 10, 1977, to develop, test, and prescribe a reporting system to accumulate public mass transit financial and operating information by uniform categories and a uniform system of accounts and records. This section also requires all applicants for grants and any person or organization to receive benefits directly from that grant after July 1, 1978, to be subject to both the reporting system and uniform system of accounts and records prescribed under this section.

49 CFR part 630 prescribes the uniform system of accounts and records and the reporting system required by the Urban Mass Transportation Act. Specifically, 49 CFR part 630, subpart B, deals with the uniform system of accounts and records, and subpart C, deals with the reporting system for reporting financial and nonfinancial operating data.

ENERGY AND OTHERCOMMODITY FUTURES TRADING COMMISSION (CFTC)

Regulates futures trading which includes trading on 13 U.S. futures exchanges, activities of commodity exchange members, futures commission merchants, commodity pool operators, and Commission-registered futures industry salespersons and associated persons. The Commission's regulatory and enforcement efforts are designed to ensure that the futures trading process is fair and that it protects both the rights of customers and the integrity of the marketplace.

7 USC 12a (5) authorizes the Commission to make and promulgate such rules and regulations as, in the judgment of the Commission, are reasonably necessary to effect any of the provisions or to accomplish any of the purposes of the Commodity Exchange Act.

7 USC 6f sets out the registration requirements for commission merchants and brokers and financial requirements of futures commission merchants.

7 USC 15 outlines the enforcement authority of the Commission for the purpose of any investigation or proceeding under the act.

17 CFR 1.10 sets out the requirements for financial reports to be filed by futures commission merchants and introducing brokers, 17 CFR 4.22 for commodity pool operators, and 17 CFR 31.13 for leverage transaction merchants.

17 CFR 1.16 sets out the qualifications and reports of accountants.

17 CFR 1.17 establishes minimum financial requirements for futures commission merchants and introducing brokers.

17 CFR 1.18 sets out the requirement for futures commission merchants and introducing brokers to prepare and keep financial books and records.

17 CFR 1.31 sets out record-keeping requirements for futures commission merchants, 17 CFR 4.23 for commodity pool operators, and 17 CFR 31.14 for leverage transaction merchants.

COST ACCOUNTING STANDARDS BOARD (CASB)

Promulgated cost accounting standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors and had the authority to promulgate rules and regulations for the implementation of such standards. Although the Board was terminated on September 30, 1980, its standards have been adopted in the Federal Acquisition Regulation.

50 USC appendix 2168(g) authorizes the Board to promulgate cost accounting standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under federal contracts.

50 USC appendix 2168(h) authorizes the Board to make, promulgate, amend, and rescind rules and regulations for the implementation of cost accounting standards promulgated under subsection (g).

4 CFR part 351 sets forth the basic requirements for all disclosure statements filed by any defense contractor.

4 CFR parts 401-420 sets forth specific cost accounting standards to be followed by defense contractors and subcontractors.

FEDERAL COMMUNICATIONS COMMISSION (FCC)

Regulates interstate and foreign communications by radio, television, wire, and cable. The scope of the regulation includes radio and television broadcasting; telephone, telegraph and cable television operation; two-way radio and radio operators; and satellite communications.

47 USC 154 (i) gives the FCC authority to perform any and all acts, make such rules and regulations, and issue such orders as may be necessary in the execution of its functions.

47 USC 220 (a) authorizes the Commission to prescribe the forms of any and all accounts, records, and memoranda to be kept by carriers subject to the Commission's purview.

47 CFR parts 31 and 33 sets forth the requirements for uniform system of accounts for telephone companies, Part 34 for radio telegraph companies, and Part 35 for wire-telegraph and ocean-cable carriers.

47 USC 721 (c)(5) states that the Federal Communications Commission, in its administration of the provisions of the Communications Act of 1934, as amended, and as supplemented by this chapter shall prescribe such accounting regulations and systems and engage in such rate-making procedures as will insure that any economies made possible by a communications satellite system are appropriately reflected in rates for public communications services. Also, 47 USC 721 (c)(11) authorizes the Commission to make such rules and regulations to carry out the provisions of this chapter.

47 USC 741 states that the Corporation (COMSAT) shall be deemed to be a common carrier within the meaning of section 3(h) of the Communications Act of 1934, as amended, and as such, shall be fully subject to the provisions of titles II and III of that act.

FEDERAL ENERGY REGULATORY COMMISSION (FERC)

Sets rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity. In addition, the Commission licenses hydroelectric power projects. It also establishes rates or charges for the transportation of oil by pipeline and the valuation of such pipelines. Prior to October 1977, with the creation of the FERC, natural gas and electricity functions were under the jurisdiction of the Federal Power Commission and oil pipeline regulation was under the jurisdiction of the Interstate Commerce Commission.

42 USC 7172(a) transfers virtually all of the Federal Power Commission's authority to the FERC.

42 USC 7172(b) transfers all functions and authority of the Interstate Commerce Commission for establishing rates or charges for the transportation of oil by pipeline or establishing the valuation of any such pipeline to FERC.

16 USC 825, the Federal Power Act, requires every licensee and public utility to keep a system of accounts, authorizes the Commission to prescribe a system of accounts to be kept by licensees and public utilities and to prescribe any rules or regulations necessary to carry out this chapter, and authorizes the Commission to examine these accounts.

16 USC 825c authorizes the Commission to prescribe the manner and form in which annual and periodic reports shall be made and makes it unlawful for any person to willfully hinder, delay, or obstruct the making, filing, or keeping of any report or other document required by the Commission.

15 USC 717g, the Natural Gas Act, requires that every natural gas company shall make, keep, and preserve for such periods, such accounts, records of cost accounting procedures, correspondence, memoranda, papers, books, and other records as the Commission may by rules and regulations prescribe as necessary or appropriate for purposes of this chapter. The Commission may prescribe a system of accounts to be kept by such natural gas companies, and may classify such natural gas companies and prescribe a system of accounts for each class; and authorizes the Commission to examine these accounts.

16 USC 825n(a) states that "any licensee or public utility which willfully fails, within the time prescribed by the Commission, to comply with any order of the Commission, to file any report required under this chapter, [the Federal Power Act], or any rule or regulation of the Commission thereunder. . . shall forfeit to the United States an amount not exceeding \$1,000 to be fixed by the Commission after notice and opportunity for hearing."

16 USC 825o sets forth the general penalties for willfully and knowingly violating any rule, regulation, restriction, condition, or order made or imposed by the Commission under authority of the Federal Power Act.

15 USC 717i authorizes the Commission to prescribe the manner and form in which annual and other periodic or special reports shall be made by natural gas companies, and makes it unlawful for any person to willfully hinder, delay, or obstruct the making, filing, or keeping of any report or other document required by the Commission.

15 USC 717t sets forth the general penalties for willfully and knowingly violating any rule, regulation, restriction, condition, or order made or imposed by the Commission under authority of the Natural Gas Act.

18 CFR 41.10 requires that only authorized public accountants shall conduct annual audits and certify major public utilities and licensees compliance with the Commission's applicable accounting and regulatory requirements.

18 CFR part 101 sets forth a uniform system of accounts for major and nonmajor public utilities and licensees.

18 CFR part 141 sets up requirements for statements and reports issued by public utilities and licensees.

18 CFR 158.10 requires that beginning January 1, 1976, only independent certified public accountants or independent licensed public accountants who were licensed on or before December 31, 1970, will be authorized to conduct annual audits and certify major natural gas company compliance with the Commission's applicable accounting and regulatory requirements.

18 CFR part 201 sets forth a uniform system of accounts for major and nonmajor natural gas companies.

18 CFR 351.1 allows carriers to release and publish financial statements to stockholders and others based on GAAP, with footnotes on any variance from Commission regulations.

18 CFR 352 sets forth a uniform system of accounts for oil pipeline companies subject to provisions of the Interstate Commerce Act.

18 CFR 357.2 sets up requirements for the annual report of oil pipeline companies to be filed with the Commission.

OFFICE OF PENSION AND WELFARE BENEFIT PROGRAMS (OPWBP)

Monitors the operation of private pension and welfare plans. Under the Employee Retirement Income Security Act of 1974 (ERISA), administrators of private pension and welfare plans must provide participants with easily understandable summaries of plans, must file these summaries with OPWBP, and must report annually on the financial operation of the plans. Plan officials charged with handling plan funds and assets must be bonded and must also meet strict fiduciary responsibility standards which are enforced by OPWBP.

ERISA responsibilities are assigned to Labor (OPWBP) as described above, to IRS, and to the Pension Benefit Guaranty Corporation (PBGC). IRS is primarily responsible for enforcing ERISA's participation, vesting, and funding provisions.

29 USC 1021 sets out the requirements for disclosure and reporting by administrators of private pension and welfare plans.

29 USC 1023 requires annual reports to be filed with the Secretary of Labor and describes information to be included in these reports. Specifically, 29 USC 1023(a)(3) requires the administrator of an employee benefit plan to engage, on behalf of all plan participants, an independent qualified public accountant, who shall conduct such an examination of all financial statements of the plan and of other books and records of the plan in conformity with generally accepted accounting principles except when financial statements are prepared by a bank or similar institution or insurance carrier regulated and supervised and subject to periodic examination by a state or federal agency, if such statements are certified by the bank, similar institution, or insurance carrier as accurate and are made a part of the annual report.

29 USC 1024 specifies filing requirements by plan administrators with the Secretary of Labor.

29 CFR part 2520 sets out the rules and regulations for reporting and disclosure under ERISA.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

Assists rural electric and telephone utilities to obtain financing. This assistance may include loans from REA, guarantees of loans made by others, and REA approval of security agreements which permit the borrower to obtain financing from other lenders without a guarantee.

7 USC 902 authorizes and empowers the Administrator, REA, to make, or cause to be made, studies, investigations, and reports concerning the condition and progress of the electrification of and the furnishing of adequate telephone service in rural areas in the several states and territories.

7 CFR 1702.3(f) establishes an Accounting and Auditing Division (reorganized into the Borrower Accounting and Services Division) which administers REA activities concerned with electric and telephone borrowers' accounting systems, the auditing of borrowers' records, and with the loan and administrative accounting of the agency.

TENNESSEE VALLEY AUTHORITY (TVA)

TVA, a government-owned corporation, conducts a unified program of resource development for the advancement of economic growth in the Tennessee Valley region. TVA is the wholesale power supplier for 160 local municipal and cooperative electric systems serving 2.8 million customers in parts of seven states.

16 USC 831 (c) authorizes TVA, among other things, to make contracts.

16 USC 831 (i) authorizes the Board of Directors, TVA, to include in any contract for the sale of power such rules and regulations as in its judgment may be necessary. If the purchaser violates any such rules and regulations, said contract may provide that it shall be voidable at the election of the Board.

EXAMPLES OF REGULATORY ACCOUNTINGPRINCIPLES (RAP) THAT DIFFER FROM OR ARE EXTENSIONS OF GAAP

The following examples are intended only to demonstrate areas where regulatory accounting principles differ from generally accepted accounting principles. They are not inclusive, as there are several other examples of variances. Excerpts representing generally accepted accounting principles (GAAP) are taken either directly from the source indicated or are summarized from that source material. Agencies provided the information under regulatory accounting principles (RAP), which represents the accounting treatment of a specific transaction.

Differences arise between GAAP and RAP when agencies specify accounting methods which are contrary to GAAP. Extensions of GAAP exist when GAAP allows flexibility in the accounting treatment of a particular transaction and RAP requires the use of one particular GAAP method.

FINANCIAL INSTITUTIONS (Federal Deposit Insurance Corporation (FDIC), Federal Home Loan Bank Board (FHLBB), Board of Governors of the Federal Reserve System (Federal Reserve), Office of the Comptroller of the Currency (OCC), Farm Credit Administration (FCA)).

INTANGIBLES (Goodwill) (FDIC, OCC, FHLBB)

GAAP

- A company should record as assets the cost of intangible assets acquired from others including goodwill acquired in a business combination. (APB-17, "Intangible Assets," para. 9)<sup>8</sup>
- Amortize intangible assets by systematic charges to income over the period estimated to be benefited, but the period of amortization should not exceed 40 years. (APB-17, "Intangible Assets," para. 9)
- If in such a combination, the fair value of liabilities assumed exceeds the fair value of tangible and identified intangible assets acquired, that excess constitutes an unidentifiable intangible asset. That asset shall be amortized to expense over a period no greater than the estimated remaining life of the long-term interest-bearing assets acquired. However, if the assets acquired in such a combination do not include a significant amount of long-term interest-bearing assets, the unidentifiable intangible asset (goodwill in this case) shall be amortized over a period not exceeding the estimated average remaining life of the existing customer (deposit) base acquired. Notwithstanding the other provisions of this paragraph, the period of amortization shall not exceed 40 years. (FASB 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," para 5)<sup>9</sup>
- In a business combination under the purchase method, goodwill is generally amortized under the straight line method. (APB 17, "Intangible Assets," para 30 and FASB Interpretation No. 9, "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method," para 9)

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<sup>8</sup>Opinions of the Accounting Principles Board (APB), New York: AICPA.

<sup>9</sup>Financial Accounting Standards Board (FASB), Statements of Financial Accounting Standards, Connecticut: FASB.

RAP

- Does allow banks to initially report intangible assets in accordance with GAAP. The FDIC does, however, require the intangible asset to be amortized over a period not in excess of 15 years or the estimated useful life of the asset, whichever is less. (FDIC)
- Write off goodwill over up to 15 years. (OCC)
- On a case by case basis, allows amortization of goodwill on a straight-line basis generally over a period of 25 years. (FHLBB)

SALE OF RECEIVABLES WITH RECOURSE (FDIC, OCC, Federal Reserve)GAAP

A transfer of receivables with recourse shall be recognized as a sale if all of the following conditions are met:

- a. The transferor surrenders control of the future economic benefits embodied in the receivables. Control has not been surrendered if the transferor has an option to repurchase the receivables at a later date.
- b. The transferor's obligation under the recourse provisions can be reasonably estimated. Lack of experience with receivables with characteristics similar to those being transferred or other factors that affect a determination at the transfer date of the collectibility of the receivables may impair the ability to make a reasonable estimate of the probable bad debt losses and related costs of collections and repossessions. A transfer of receivables shall not be recognized as a sale if collectibility of the receivables and related costs of collection and repossession are not subject to reasonable estimation.
- c. The transferee cannot require the transferor to repurchase the receivables except pursuant to the recourse provisions.

(FASB No. 77 - "Reporting by Transferors for Transfers of Receivables with Recourse" - para 5)

RAP

--The transaction is considered to be a collateralized borrowing. Accordingly, the bank records the proceeds from the "sale" as a liability for borrowed money and continues to report the receivables "sold" as part of its assets. (FDIC)

--Because of the recourse, it is not a sale but a financing (liability). (OCC)

--Because of the recourse, it is not a sale but a borrowing (liability). (Federal Reserve)

NET WORTH CERTIFICATES (FDIC, FHLBB)

--The Financial Accounting Standards Board tentatively concluded that the Bank Board's promissory note does not meet the profession's definition of an asset and that the Bank Board's net worth certificate should, therefore, not increase an institution's net worth. Similarly, the American Institute of Certified Public Accountants (AICPA) concluded that the FDIC's promissory note did not meet the definition of an asset. The AICPA concluded that the exchange of FDIC's promissory note for a bank's net worth certificate under FDIC's program does not involve the payment of any consideration and that the note is realizable only if the bank is liquidated. (FASB "Announcement of Board Actions and Forthcoming Meetings," No. 83-46, November 23, 1983, and GAO Report-GAO/GGD-85-8, November 5, 1984, "Net Worth Certificate Assistance Programs: Their Design, Major Differences and Early Implementation")

RAP

- As required by the Garn-St Germain Depository Institutions Act of 1982 (P.L. 97-320), records net worth certificates as part of the capital accounts of a savings bank. (Commercial banks have not issued net worth certificates.) (FDIC)
- The promissory note is recorded as an asset and the net worth certificate is included as a constituent of net worth. (FHLBB)

APPRAISED EQUITY CAPITAL (PHLBB)GAAP

--Plant and equipment should not be written up by an entity to reflect appraised, market, or current values which are above cost to the entity. (APB 6, "Status of Accounting Research Bulletins," para. 17)

RAP

--Institutions are permitted to record, only one time, the asset appreciation. This provision sunsets on December 31, 1985. (PHLBB)

SUBORDINATED DEBT (FHLBB)GAAP

--Federal regulations now permit the issuance of subordinated debt securities for terms of not less than seven years. Subordinated debt securities issued by savings and loan associations should be classified as debt on the association's statement of financial condition. Even though the securities may be wholly or partially considered as "net worth" for certain regulatory purposes, they are debt instruments that require repayment.

(AICPA Audit and Accounting Guide - Savings and Loan Association, chapter 3 - "Accounting Principles and Auditing Procedures," p. 62.)<sup>10</sup>

RAP

--Record subordinated debt as a part of net worth if it meets certain criteria contained in FHLBB regulations.  
(FHLBB)

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<sup>10</sup>American Institute of Certified Public Accountants.  
Accounting and Auditing Guides, New York: AICPA.

IN-SUBSTANCE DEFEASANCE (OCC, FDIC, Federal Reserve)GAAP

--A debtor shall consider debt to be extinguished for financial reporting purposes if the debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and if the possibility that the debtor will be required to make future payments with respect to that debt is remote. In this circumstance, debt is extinguished even though the debtor is not legally released from being the primary obligor under the debt obligation.

(FASB No. 76 - "Extinguishment of Debt" - para 3)

RAP

- The debt continues to be recorded as a liability. (OCC)
- Requires that the debt be reported as a liability of the bank and that the assets held in trust be reported as assets of the bank. (FDIC)
- Bank holding companies as well as state member banks record the debt as a liability. (Federal Reserve)

ALLOWANCE FOR LOAN LOSSES (FCA)GAAP

--A bank should maintain a reasonable allowance for loan losses applicable to all categories of loans through periodic charges to operating expenses. The amount of the provision can be considered reasonable when the allowance for loan losses, including the current provision, is considered by management to be adequate to cover estimated losses inherent in the loan portfolio. In other words, the propriety of the accounting treatment should be judged according to the adequacy of the allowance determined on a consistent basis, not the provision charged to operating expenses.

Loans should be written off when they are deemed uncollectible, and that practice should be applied consistently in all interim financial reporting periods.

(AICPA Industry Audit Guide - Audits of Banks, chapter 8, "Allowance for Loan Losses," pp. 61-62.)

RAP

--An allowance for loan losses of at least 1 percent of loans must be maintained by federal land banks and federal land bank associations. Each production credit association shall add an amount equal to 1/2 percent of loans outstanding at the end of each fiscal year or a lesser amount that utilizes all earnings to the allowance account until the allowance equals 3-1/2 percent of loans outstanding. Further additions beyond the 3-1/2 percent may be made with the approval of the supervising bank. (FCA)

ENERGY AND OTHER (Federal Communications Commission (FCC))CAPITALIZED LEASES (FCC)GAAP

--If, at its inception, a lease meets one or more of the following four criteria, the lease shall be classified as a capital lease by the lessee.

1. By the end of the lease term, ownership of the leased property is transferred to the lessee.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
4. At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the excess of the fair value of the leased property.

Otherwise, the lease shall be classified as an operating lease. (FASB-13, "Accounting for Leases," para 7)

RAP

--All leases, regardless of contract provisions, are treated as operating leases, i.e., all lease payments are treated as an expense in the period in which they are made. (FCC)

ACCOUNTING FOR INCOME TAXES (FCC)GAAP

--Concerning the accounting for income taxes, "items of revenue and expense are sometimes taxable or deductible in periods other than the periods in which those items are recognized for financial reporting purposes. In some cases, a regulator does not include the income tax effect of certain transactions in allowable costs in the period in which the transactions are reported but includes income taxes related to those transactions in allowable costs in the period in which the taxes become payable. In such cases, if it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on taxes payable at that time, the enterprise shall record neither the deferred income taxes that result from those timing differences nor the related asset (the probable future benefits that will result from payment of the taxes). However, the enterprise shall disclose the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided. That disclosure supplements the requirements of paragraph 63 of Opinion 11 for disclosure of operating loss carry-forwards, significant amounts of other unused deductions or credits, and reasons for significant variations in the customary relationships between income tax expense and pretax accounting income. Except as provided in this paragraph, regulated enterprises shall apply the requirements of Opinion 11."

(FASB No. 71 - "Accounting for the Effects of Certain Types of Regulation," para 18)

RAP

--Generally permits normalization of tax timing differences, i.e., interperiod tax allocation arising only from a carrier's use of accelerated depreciation and directs the flow-through method for other timing differences unless specifically approved by the Commission. (FCC)

AGENCY ENFORCEMENT ACTIONSFINANCIAL INSTITUTIONS

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (FRS) - The Federal Reserve conducts on-site examinations of banks and large holding companies (assets greater than \$100 million), and small holding companies (assets of \$100 million or less). The frequency and type of examination depends, in part, on the condition of the institution as indicated in its last examination or in "surveillance screens" of reported information. In addition, if an institution does not file its call report<sup>11</sup> on time, the Federal Reserve contacts it to find out the reasons and to request a filing.

The Federal Reserve can issue cease and desist orders or enter into written agreements, issue removal orders, civil money penalties, and capital directives. The Board's enforcement actions are to remedy violations of law as well as unsafe or unsound practices, and to prevent further violations of practices. In calendar year 1984, the Board completed 80 enforcement actions.

OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC) - The Office conducts bank examinations and Securities Exchange Act of 1934 report reviews. The Office policy is to focus examination resources on the areas of highest risk and market impact. The frequency and type of examination performed depend upon each bank's rating with the Office's priority-rating system. Sound and well managed banks are examined approximately once each year. Banks requiring special supervision are examined every 6 months. In calendar year 1983, the Office conducted 4,211 bank examinations.

The Office conducts three types of examinations. The first, a comprehensive examination, is intended to provide an objective evaluation of a bank's soundness, to permit an appraisal of the quality of management and directors, and to identify areas where corrective action might be required. Corrective action would be designed to strengthen the bank, to improve its performance, and to improve its compliance with laws, rules, and regulations. The second type of examination, a targeted examination, provides in-depth coverage of areas previously identified to be of supervisory concern and may also focus on areas exhibiting the highest degree of actual or potential risk. The third type is the annual review and visitation which assesses whether the bank is free of significant changes in policies or management which might adversely affect the bank's condition.

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<sup>11</sup>A call report "Report of Condition and Income," is a financial report required by the agencies regulating financial institutions.

The Office can take both administrative and legal action when seeking recourse against a bank. Administrative actions include memoranda of understanding (asking the institution's Board of Directors to take action) and formal administrative agreements. These agreements are legally binding and usually precede cease and desist orders. Legal actions include civil money penalties and cease and desist orders. In calendar year 1983, the Office issued 170 civil money penalties against bank officials and 274 cease and desist orders and administrative agreements.

In addition, Comptroller of the Currency officials conduct reviews under the Securities Exchange Act of 1934 similar to SEC reviews of required financial statements/reports. Office staff review GAAP statements issued by the 200-250 reporting financial institutions for compliance with Office accounting/financial reporting requirements, review call reports, and compare the conclusions reached based on these reviews with bank examination results. OCC can take civil injunctive and administrative actions against offenders under the federal securities laws.

FARM CREDIT ADMINISTRATION (FCA) - The Administration conducts on-site examinations of its banks annually and of its associations every 36 months. In calendar year 1984, it reviewed about 781 of the approximately 830 banks and associations. The only type of enforcement actions available to the agency are administrative in nature. It can (1) request, through letters or phone calls, that the bank or association take action, (2) include bank or association deficiencies in the examination report to the Board, (3) modify or amend the institution's charter and bylaws, (4) require merger when an institution fails to cooperate in accordance with the Farm Credit Act, and/or (5) declare an institution insolvent and place such institution in receivership. There is no legal recourse available against the banks and associations except in a case involving "Truth in Lending" infractions. Thus, the Administration has no statutory authority to issue cease and desist orders, impose civil money penalties, remove an officer or director, or revoke a charter. According to FCA officials, it is the agency's standard practice to furnish reports of adverse actions to Farm Credit System institutions which will cause corrective actions to be effected.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - The FDIC performs examinations to determine whether a bank is operated in a safe and sound manner consistent with laws and regulations. In connection with these examinations, the FDIC will check the banks' compliance with the agency's accounting and reporting requirements. Additionally, the FDIC submits all quarterly Reports of Condition and Income filed to extensive computer edit checks.

The principal purpose of an examination is the effective surveillance and supervision of banks in order to detect unhealthy or deteriorating conditions, to determine compliance

with laws and regulations, and to provide a factual foundation for the formulation of corrective actions.

The FDIC can take several types of actions against insured nonmember banks or their officers and directors. These include cease and desist orders, civil money penalties, officer or director removal, late filing penalties, memoranda of understanding, capital directives, and letters requiring specific bank corrective actions. Also, the FDIC can take action to terminate the insurance of any bank it insures. In calendar year 1984, the FDIC issued 138 cease and desist orders, obtained 13 civil money penalties, removed 13 bank officers, and initiated actions to terminate the insurance of 32 banks. FDIC also investigates the audit work performed by an independent accountant in each instance where a failed bank had been previously audited. FDIC can seek compensation for damages connected with these audit failures.

The examination program includes examinations, both of full-scope and directed nature, visitations, and off-site reviews. The frequency of these activities is essentially based on a bank's rating, with those rated highest receiving more frequent examinations. Banks rated 4 or 5 receive, at a minimum, one examination every 12 months, although for the 4-rated banks, the interval may be extended up to 18 months in exceptional circumstances. Banks rated 4 or 5 must be visited at least each 3 months when an examination is not conducted.

Banks rated 3 receive, at a minimum, one examination every 12 months, although this may be extended up to 24 months in exceptional circumstances. These banks must have a visitation or off-site review each 6 months when an examination is not conducted.

Banks rated 1 and 2 receive, at a minimum, one examination each 36 months, although this may be extended up to 60 months in exceptional circumstances. These banks must receive a visitation or off-site review each 12 months when an examination is not conducted.

Banks newly chartered and insured, converting from a national or state member status, or which have had changes in control, are subject to examination in addition to the frequencies mentioned above.

The examination report is divided into a core and a supplemental section. The core is completed for all examinations, while the supplemental schedules are used, as deemed necessary, by the examiner or the examiner's supervisors. Beyond the requirements of the core examination report, the examination may be tailored as appropriate.

During an examination, the quarterly Reports of Condition and Income filed by the bank with the FDIC are reviewed for accuracy, which involves checking for compliance with the agency's instructions and accounting procedures.

FEDERAL HOME LOAN BANK BOARD (FHLBB) - The Board conducts on-site examinations to determine regulated entity compliance with established accounting/financial reporting requirements. Supervisory agents at the 12 district banks receive the examination reports and are responsible for getting the savings and loan institutions to take the necessary corrective action. Enforcement actions available to the FHLBB include the issuance of cease and desist orders, civil suits against institution directors and officers, letters directing institution actions to correct problems noted, and meetings with institution board of directors to direct them to take corrective actions.

Savings and loan institutions must send copies of their annual audit reports to FHLBB district offices. The District Director-Examinations determines if the auditor conducted the work in a manner satisfactory to the FHLBB and whether the FHLBB should accept the report.

If the examination results show that the auditor did not follow the established rules of ethics or conduct, was not independent, knowingly made material misstatements of fact, or failed to meet any of the other requirements, the District Director-Examinations can take several actions. The Director can reject the audit, determine that all audit reports by the auditor are not acceptable to the FHLBB, and arrange for an audit of the institution. The FHLBB can and does, when deemed appropriate, refer cases to the AICPA Ethics Committee and the applicable state licensing authority. In addition, the FSLIC can bring suit against a CPA.

In calendar year 1983, FHLBB issued 17 cease and desist orders and removed or disciplined 21 individuals. In addition the FSLIC has suits pending against two accounting firms. A third suit was settled in May 1985.

NATIONAL CREDIT UNION ADMINISTRATION (NCUA) - The NCUA performs supervisory examinations of its credit unions. The primary purpose of these examinations is to (1) evaluate the credit union's financial soundness, (2) appraise the quality of management, (3) develop plans with officials to correct areas of weaknesses, and (4) determine the degree of risk to the National Credit Union Share Insurance Fund. These examinations are not detailed audits, and, as such, do not verify transactions or account balances. That function is performed by a supervisory committee or its professional accountants.

Credit union audits performed by supervisory committees verify that the figures presented on financial statements reflect actual conditions. The supervisory committee of each credit union makes its audit work papers and reports available to NCUA examiners.

Examiners hold meetings with the supervisory committee to resolve areas of concern detected during the committee review

or to provide committee members with audit guidance. Through these meetings, the examiners and the supervisory committee assist each other by identifying areas in which each may have special concerns.

Examiners conducted 10,628 and 11,064 examinations in fiscal years 1984 and 1983 respectively.

The NCUA has the authority to cancel the charter (involuntary liquidation) of a federal credit union, and canceled 38 in fiscal year 1984. When deficiencies are detected at federally insured state chartered credit unions, NCUA works through states when deciding to take corrective action.

#### TRANSPORTATION

CIVIL AERONAUTICS BOARD (CAB) - To ensure compliance with agency reporting requirements, CAB conducted sample audits of data on financial reporting forms submitted by carriers. In fiscal year 1984, CAB conducted eight such audits. When carriers were found deficient in meeting requirements, CAB had both administrative and legal remedies available. However officials stated that nearly all problems were resolved by negotiating with carriers so that legal measures were usually not required.

FEDERAL MARITIME COMMISSION (FMC) - Financial statements are given a cursory review when filed with the agency. Where forms are not adequate or complete, the agency sends letters asking for data or requesting adjustments. Ultimately, a case could be referred to the General Counsel's Office. Also, a fine of \$100 per day can be levied on the carrier for data not supplied, or FMC can reject tariff pages of the carrier (revisions to their tariff). FMC can also determine if carriers rates are reasonable. Usually only two or three administrative actions are required annually, and no legal actions have been required in recent years.

INTERSTATE COMMERCE COMMISSION (ICC) - ICC conducts railroad and motor carrier reviews to insure compliance with agency reporting requirements. ICC conducted 25 railroad and 20 motor carrier reviews in fiscal year 1984. When noncompliance is found, ICC has administrative and legal remedies available to it. Virtually all problems are resolved administratively. If necessary, legal provisions exist to fine rail carriers \$5,000 for knowingly not filing required information.

MARITIME ADMINISTRATION (MARAD) - The Department of Transportation's (DOT) Office of Inspector General and MARAD's Office of Financial Approvals review companies' submissions of data. DOT audits the 20 companies receiving MARAD subsidies and has procedures for correcting deficient audit work or seeking sanctions. The Office of Financial Approvals does a cursory review of financial forms submitted by companies. If data are not submitted as required, administrative actions can be taken

to gain compliance. For example, MARAD can deny companies their subsidy, raise the fee for loan guarantees, or drop companies from the program in the case of title XI participants. MARAD has experienced virtually no situations where required data have not been provided satisfactorily.

URBAN MASS TRANSPORTATION ADMINISTRATION (UMTA) - Financial reports submitted to UMTA go to DOT's information center, where the data is audited and reviewed for adequacy. Where data problems are found, UMTA can negotiate with the grantee to make changes to the data, send letters of admonishment, or threaten to adjust the amount apportioned by formulas. Other actions available to UMTA include cutting the grantee's funds or refusing to consider future requests for funds. Also the Office of Inspector General, DOT, reviews the work performed by independent auditors and has procedures for correcting deficient audit work or seeking sanctions.

#### ENERGY AND OTHER

COMMODITY FUTURES TRADING COMMISSION (CFTC) - The financial oversight program is conducted by the Division of Trading and Markets and primarily involves review of the audit and financial surveillance programs of the 13 domestic commodities exchanges and the National Futures Association (NFA). Also, as a part of the oversight program, the CFTC performs a limited number of field audits of commodities brokers to further test the quality of exchanges and NFA audit work. When violations are found, referrals are made to the Division of Enforcement, which investigates and prosecutes alleged violations of the Commodity Exchange Act and Commission regulations. The Division may recommend that the Commission initiate administrative proceedings, including suspension, denial, or revocation of a respondent's registration with the Commission, denial of contract market trading privileges, cease and desist orders, and the assessment of civil monetary penalties. The Commission may obtain preliminary and permanent injunctions in federal court to halt ongoing violations. Ancillary relief may include appointment of a receiver, a freeze on assets, and disgorgement of unlawful benefits. The Commission can sue a CPA and also deny a CPA the right to practice before the Commission.

In fiscal year 1984, the Commission's Division of Trading and Markets conducted 53 audits, reviewed 3,216 financial reports, and completed five financial rule enforcement reviews of self regulatory organizations. In addition, the CFTC instituted 50 administrative enforcement proceedings and 18 injunctive actions.

FEDERAL COMMUNICATIONS COMMISSION (FCC) - The Enforcement Division, Common Carrier Bureau, handles formal and informal complaints and inquiries involving common carriers. During fiscal year 1984 the Division received and handled, but not necessarily resolved, 20,000 written complaints and 7,900

telephone inquires. The Division also resolved 146 complaints in fiscal year 1984. No statistics were available on enforcement actions taken by the Enforcement Division.

The Accounting and Audits Division, Common Carrier Bureau, completed 21 audits and reviewed 20 annual reports in fiscal year 1984.

FEDERAL ENERGY REGULATORY COMMISSION (FERC) - FERC audit staff conduct on-site compliance audits, perform desk audits of annual report Forms 1F, 2A, and 6, and review annual CPA reports. FERC reviews CPA working papers before conducting their compliance audits.

FERC has the authority to levy fines for noncompliance with regulatory requirements. Any problem found during the audit would be brought to the attention of the company for corrective action. If a company does not agree with an audit finding, it can request a hearing before an administrative law judge or the Commission. In addition, FERC can order refunds to customers. In fiscal year 1983, FERC ordered refunds totaling \$796,790. Refunds in fiscal year 1984 totaled \$946,119.

TENNESSEE VALLEY AUTHORITY (TVA) - Accountants from the Distributors Accounting Staff perform an accounting appraisal on every distributor. Accountants discuss any deviations from the standards with the distributor, and together with the Power and Engineering Staff, develop a plan of action to correct problems. Accountants attempt to visit distributors at least once every 4 to 6 weeks. About 40 percent to 50 percent of these visits involve compliance reviews, and on the remaining 50 percent to 60 percent of the visits, TVA accountants provide advice and assistance regarding accounting systems.

As for type of enforcement action available to TVA, the power contract has a clause that allows TVA accountants to perform the necessary accounting work and bill the distributor. If other provisions of the contract are not met and differences cannot be negotiated, TVA's General Counsel can pursue legal recourse. These cases are rare and in fiscal year 1984, no enforcement actions were taken.

TVA requires distributors to file a copy of their audited financial statement, thereby ensuring that all distributors have an annual financial statement audit. TVA's Distributors Accounting Staff review the audit reports and compare the audit reports to the annual report submitted by the distributors.

OFFICE OF PENSION AND WELFARE BENEFIT PROGRAMS (OPWBP) - The Department of Labor is required to enforce fiduciary standards. The Office requires that plans be audited annually by a certified or licensed public accountant. OPWBP may reject any filing where the accountant's opinion contains a material

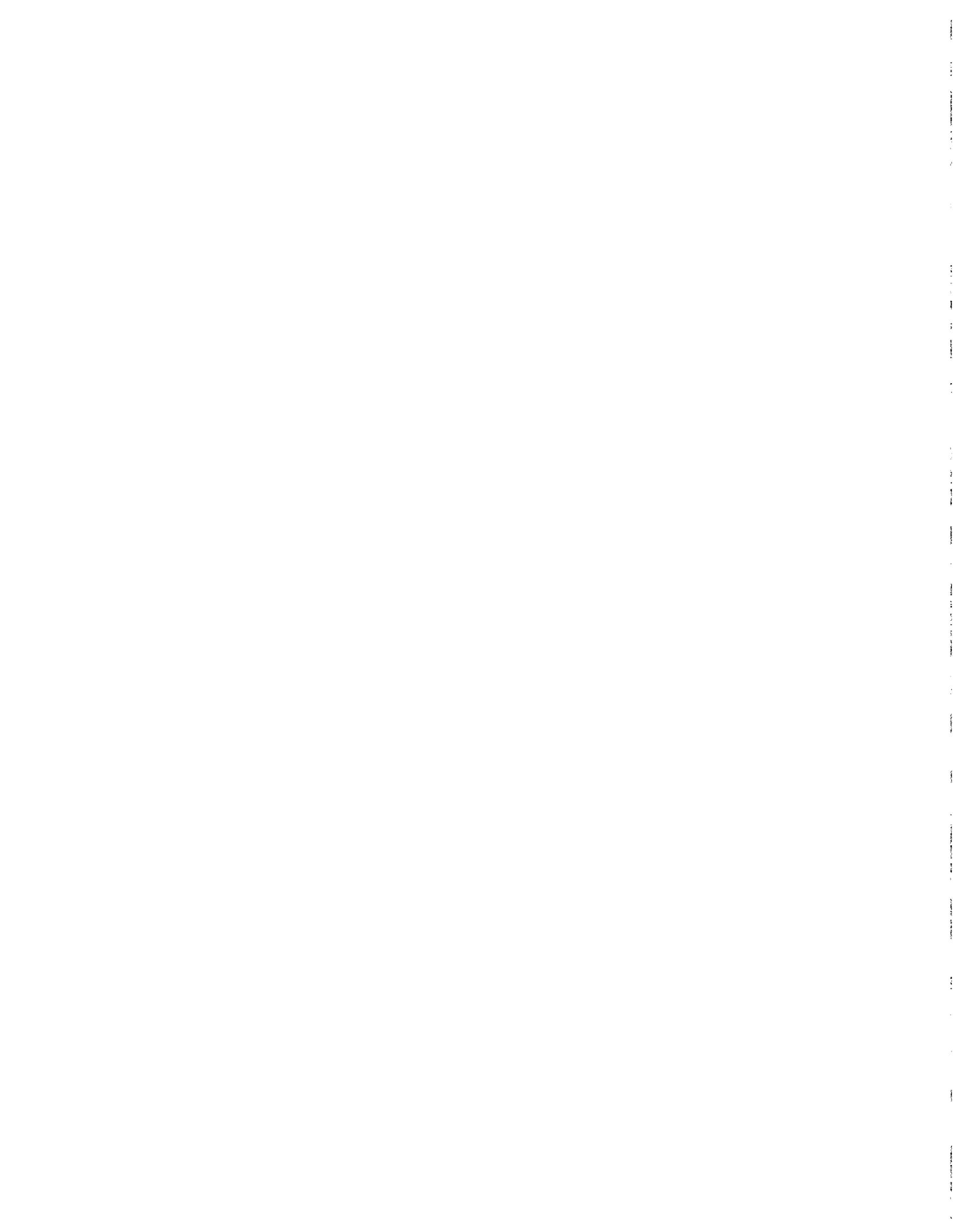
qualification. OPWBP national office reviews reports filed with the Department to ensure that the forms have been properly completed and to identify any plan practices which might require investigation. If there is indication of willful violation of the reporting requirement, which is rare, the matter is referred for possible criminal action.

Leads as to problems with the pension plans come from participant complaints, computer screening, field office audits, and programs targeting areas for review. When problems are found, administrative and legal remedies are available. About half of the problem cases are handled by negotiation and voluntary corrective action. Civil and criminal actions may be used against administrators. In fiscal year 1984, OPWBP field offices closed 2,454 investigations. Of these, 1,378 cases involved adverse actions (violations were corrected voluntarily or after litigation). The remaining 1,076 cases were closed with no violation.

In addition, the Office of Labor Racketeering (OLR), within the Office of the Inspector General, investigates corruption in several areas including employee benefit plans. For the period October 1, 1984, through March 31, 1985, OLR obtained nine convictions involving benefit plan officials. Indictments relating to benefit plans during this same period totaled 13.

RURAL ELECTRIFICATION ADMINISTRATION (REA) - REA auditors perform field audits to ensure compliance with loan agreements. During fiscal year 1983, REA completed 366 loan fund audits. If problems arise during the audit, REA drafts letters to borrowers outlining their concerns. If problems cannot be negotiated, several courses of action are available including: refusing further advances of funds, declaring all unpaid principal and interest payable, taking possession of property, and taking action against a third party. In fiscal year 1984, REA did not take any enforcement actions.

REA area branches review audit reports submitted by borrowers. In fiscal year 1983, they reviewed 1,925 audit reports and in fiscal year 1984 they reviewed 1,505 reports. In addition to reviewing audit reports, the area branches and the Technical Accounting and Auditing Staff, Borrower Accounting and Services Division, review CPA reports and working papers to ensure compliance with REA's audit requirements. REA must also approve CPA firms selected by borrowers. Failure to meet generally accepted auditing standards, failure to comply with REA's specific auditing and reporting requirements, or a change from the accountant's independent status generally results in REA's withdrawal of approval for the CPA to perform further audits of its borrowers.





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