
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Congress Should Consider Revising Basic Corporate Control Laws

The Congress has established corporations to carry out certain business-type functions of the Federal Government because of the perceived need for a high degree of operating flexibility and independence. In 1945, the Congress adopted the Government Corporation Control Act to establish a framework for the accountability of Government corporations.

Of the corporations that exist today, 23, or about half, are not covered by the laws' accountability provisions. As a result, accountability controls--including financial audit, budget reporting and review, and Treasury financial controls--are not uniformly applied.

GAO believes the Congress should consider revising the basic corporate control laws to include a definition, classification criteria, and general accountability standards for all Government corporations. GAO also believes that the enabling legislation of the individual corporations should be amended for consistency with the laws' overall provisions.



GAO/PAD-83-3
APRIL 6, 1983

025232 / 121052

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".




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

B-202461

To the President of the Senate and the
Speaker of the House of Representatives

We have examined the basic corporate control laws, 31 U.S.C. 9101-9109, in the context of accountability controls and have identified deficiencies in the application of these controls. Because many corporations have been established outside the purview of these laws, they no longer provide the effective control that the Congress intended. We made this review as part of our continuing effort in the area of budget information and oversight reform.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and other interested parties.


Comptroller General
of the United States

D I G E S T

Government corporations have been and continue to be created to carry out certain business-type functions because of the perceived need for a high degree of operating flexibility and independence. For example, Government corporations may be exempted from certain Federal regulations and guidelines, such as civil service pay scales and hiring rules, position ceilings, and statutes governing procurement practices that apply to the executive agencies. The regulatory and procedural exemptions are intended to allow corporations to respond more quickly to changes in the marketplace and to take advantage of cost-saving opportunities (see pp. 1).

While certain operating flexibilities are necessary for business-type activities, an issue can be raised as to the extent and appropriateness of their independence from overall management and financial control. For example, not all Government corporations have been subject to program oversight and the full range of budgetary review by the Office of Management and Budget and the Congress. The need for operating flexibility and budget controls were addressed in the Government Corporation Control Act of 1945, the provisions of which are now codified in 31 U.S.C. 9101-9109.

The Congress adopted corporation control laws to provide for the accountability of Government corporations. The laws have established separate accountability controls for wholly owned and mixed-ownership corporations. Specifically, for each type of corporation the Government Corporation Control Act prescribed uniform controls for budget reporting, financial auditing, and Treasury Department review of financial transactions. These controls applied to corporations in existence at that time (see p. 4).

WHY SHOULD CORPORATE CONTROL LAWS BE REVISED?

Several new corporations were established after 1945, and the basic corporation control laws

(31 U.S.C. 9101-9109) have not been amended to include all of them. As a result, 23 of the 47 Government corporations that exist today are not covered by these accountability controls. While some accountability controls are specified in the enabling legislation for some of the newer Government corporations, they do not always relate to those in the basic corporate control laws. In examining the accountability controls that are specified in 31 U.S.C. 9101-9109 and in the individual corporations' enabling legislation, GAO found that current controls--including financial audit, budget reporting and review, and Treasury financial controls--are not uniformly applied. As a result, similar corporations are subjected to different controls, and the effectiveness of the controls can therefore be questioned (see chapter 5). Other controls such as program audit and oversight and on-budget reporting are not addressed. These additional controls would enable the Congress to monitor program performance and to consider the financing of all corporations during the budget review process.

These provisions of law distinguish between wholly owned and mixed-ownership corporations. These classifications are a mechanism for applying accountability controls. This mechanism is conceptually sound; however, there are some deficiencies in its application. The laws do not define Government corporations aside from listing the wholly owned and mixed-ownership corporations. The law also lists "the Secretary of Housing and Urban Development when carrying out duties and powers related to the Federal Housing Administration Fund" although the Fund is not a corporation. Additionally, the law does not give criteria for classifying these corporations (see pp. 8-10). Several corporations have become privately financed and are predominately private in their management. The law does not provide a classification or controls for these corporations. These deficiencies create confusion and weaken accountability (see pp. 10-12).

GAO believes that while a broad range of Federal accountability controls is needed for these corporations, standard definition and classification criteria are essential if the controls are to be developed appropriately and applied consistently and effectively.

GAO's objective in this report is to evaluate the current provisions of the basic corporate control laws and to propose needed improvements to the Congress. GAO researched the legal, organizational, and financial characteristics of Government corporations and provided criteria for defining and classifying them. Additionally, GAO analyzed the existing accountability controls for Government corporations and developed an accountability model. The proposed accountability model demonstrates that different accountability standards could be established for each corporate classification. Before GAO undertook this study, no comprehensive inventory of Government corporations existed to support analysis or oversight. GAO developed one, and it is presented in appendix I of this report (see pp. 37-41).

In conducting this review, GAO has not attempted to examine the effectiveness of Government corporations against alternative organizational forms for carrying out public policy. Additionally, GAO has not addressed the subject of corporation control in the context of currently proposed oversight reform legislation that would focus on the missions, operations, and accomplishments of corporate programs. This should indeed be done. But the first and most important task is to develop the definitions, standards, and criteria that will help establish the proper accountability of Government corporations. GAO did not examine internal operations or procedures of individual corporations. Controls over personnel, procurement, and other operating practices should be separately reviewed. GAO believes that corporations should be subject only to Federal decisions, rules, administrative practices, and procedures that the Congress deems appropriate to a corporate activity (see pp. 1-2).

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider revising the basic corporate control laws, 31 U.S.C. 9101 through 9109, to include a definition of and classification criteria for Government corporations and to establish uniform accountability standards for them. The standards should include financial audit, program audit and oversight, on-budget reporting and budget review by the Congress, and Treasury financial controls (see pp. 31-32). Specifically, the Congress

should consider amending the following sections of law:

- Title 31 U.S.C. 9101, to include a definition that describes Government corporations and their common powers or attributes;
- Title 31 U.S.C. 9101, to identify three classifications of corporations: predominately Federal, mixed Federal/private, and predominately private;
- Title 31 U.S.C. 9103 and 9104, to provide for congressional review of the budgets of mixed Federal/private and predominately private corporations receiving Federal financing in addition to those of predominately Federal corporations. On-budget reporting of corporations' revenues and expenditures should also be considered;
- Title 31 U.S.C. 9105, to provide for financial audits of all corporations (including predominately private corporations) when Federal financing has been used;
- Title 31 U.S.C. 9105, to provide for periodic program review; and
- Title 31 U.S.C. 9105(e), to grant authority for annual GAO audits or to allow Government corporations to pay the cost of independent certified public accountant audits of their financial records and to provide for GAO review of these annual audits. If the Congress chooses to grant authority for annual GAO audits, GAO would need a funding increase. This could be accomplished by increasing GAO's appropriation, or by allowing GAO to retain reimbursements from the corporations.

Finally, the Congress should consider the applicability of 31 U.S.C. 9107 and 9108--Treasury approval of accounts and security obligations--to all Government corporations. (See pp. 29-31 for further recommendations.)

Once 31 U.S.C. 9101-9109 has been revised, the enabling legislation of the individual corporations should be amended so that they are consistent with the basic corporate control laws' overall definition, classifications, and accountability standards. An exception would be cases

in which specially tailored practices are needed. In establishing new corporations or revising existing ones, the Congress should maintain consistency with the practices specified in the revised laws. These steps will insure the integrity of the basic corporation control legislation.

Agency Comments

The Department of the Treasury concurred with GAO's position that the basic corporate control laws require updating to improve financial controls and to assist in the development of standards. The Office of Management and Budget (OMB) stated that the report is "generally constructive and a contribution to the ongoing dialogue on creating and managing government corporations." OMB also commented on certain aspects of the report that it believed were in need of more explanation. Treasury and OMB comments and GAO's response to OMB comments are in appendix III.

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Objectives, scope, and methodology	1
2	THE LEGISLATIVE BACKGROUND OF PUBLIC CORPORATION CONTROL	3
	History of corporations prior to 1945	3
	The Government Corporation Control Act of 1945	4
	Developments after 1945	4
	Corporations covered by Basic Corporate Control Laws	6
	Budgetary, financial, and auditing controls	6
3	PROBLEMS CREATED BY INCONSISTENT DEFINITIONS AND CLASSIFICATIONS	8
	Problems of unclear definitions	8
	Problems of inconsistent classifications	10
4	A STANDARDIZED DEFINITION AND CLASSIFICATIONS WOULD ELIMINATE CONFUSION	13
	Developing criteria for a standardized definition	13
	Establishing standard classifications for determining appropriate controls	14
	Predominately Federal corporations	15
	Mixed Federal/private corporations	15
	Predominately private corporations	16
	Changes in classifications	17
5	PROBLEMS CREATED BY INCONSISTENT ACCOUNTABILITY CONTROLS	18
	The inconsistent application of financial audit controls	18
	Incomplete coverage of program oversight	18
	Inconsistent budget reporting practices and understated budget totals	19
	The inconsistent application of financial transaction controls	20
6	STANDARDIZED CONTROLS WOULD IMPROVE ACCOUNTABILITY	22
	Financial audit controls can be applied consistently	23

CHAPTER		<u>Page</u>
	Program oversight can be strengthened	26
	On-budget reporting can strengthen accountability	28
	Financial controls can be strengthened	28
7	CONCLUSIONS AND MATTERS FOR CONSIDERATION BY THE CONGRESS	30
	Conclusions	30
	Matters for consideration by the Congress	32
	Agency comments and GAO's evaluation	33
APPENDIX		
I	An inventory of Government corporations	1
II	Corporate operating characteristics specified in enabling legislation and in the basic corporate control laws	9
III	Agency letters and GAO responses	14
TABLE		
1	Are these entities Government corporations?	9
2	How corporation classifications vary	11
3	Accountability model for standardization of controls	24
4	Comparison of on-budget and off-budget financing	29

ABBREVIATIONS

AID	Agency for International Development
CPA	Certified Public Accountant
CSA	Community Services Administration
DOE	Department of Energy
DOT	Department of Transportation
FCA	Farm Credit Administration
FCC	Federal Communications Commission
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHLBB	Federal Home Loan Bank Board
FSLIC	Federal Savings and Loan Insurance Corporation
GCCA	Government Corporate Control Act
HUD	Department of Housing and Urban Development
H.R.	House Resolution
ICC	Interstate Commerce Commission
JURIS	Justice Retrieval and Inquiry System
LAPIS	Legislative, Authorization, Program, and Budget Information System
NASA	National Aeronautics and Space Administration
NCUA	National Credit Union Administration
OMB	Office of Management and Budget
P.L.	Public Law
REA	Rural Electrification Administration
SEC	Securities and Exchange Commission
U.S.C.	United States Code
USRA	United States Railway Association



CHAPTER 1

INTRODUCTION

The Congress has established corporations to carry out business-type programs that need a high degree of autonomy and flexibility. For example, Government corporations may be exempted from certain Federal regulations such as civil service pay scales and hiring rules, position ceilings, and statutes governing procurement practices. These exemptions allow corporations to respond more quickly to changes in the marketplace and to take advantage of cost-saving opportunities. As the number of corporations grew, specific legislation was passed to ensure their accountability. However, additional corporations have been created, and the legislative controls are now out of date.

OBJECTIVES, SCOPE, AND METHODOLOGY

Because Government policies, programs, and operations change over time, it is useful to review them periodically. Our ongoing efforts in the areas of program and budget information and oversight reform have led us to examine Government corporations in the specific context of standards and controls. We have reviewed 31 U.S.C. 9101-9109 as codified by P.L. 97-258 (formerly known as the Government Corporation Control Act); the Government Corporation Control Act's legislative history; studies prepared by experts on public enterprises; studies by the Congressional Research Service on Government organization, management, and public enterprises; and our own earlier reviews, including financial and program audits, as well as reports on budget reform and oversight. This review was performed in accordance with generally accepted government audit standards.

Our objective in this report is to evaluate the adequacy of the basic corporation control laws (31 U.S.C. 9101-9109) and to propose needed improvements to the Congress. We did not review the numerous Federal decisions, rules and regulations, administrative practices, and procedures that currently apply individually, or collectively, to corporations. Controls over personnel, procurement, and other operating practices should be reviewed to determine those operating controls appropriate to any or all corporations. We believe that corporations should be subject only to those operating controls that the Congress deems appropriate to a corporate activity.

We have not attempted to examine the effectiveness of Government corporations against alternative organizational forms for carrying out public policy. Doing this would require reviewing the operations of individual corporations and was not part of our purpose. We have not addressed the subject of corporation control in the context of previously proposed sunset and oversight legislation that focuses on the missions, operations, and accomplishments of Federal activities, including corporate programs. This should indeed be done. But, the first and most important task is to develop the definitions, standards, and criteria that will help establish the proper accountability

of Government corporations. This task calls for a separate review and analysis of Government corporation accountability.

To review corporations in the context of accountability, we developed an inventory of 47 Government corporations so that we could determine their common attributes. We began by noting all existing corporations under the purview of 31 U.S.C. 9101-9109. Next, we searched our Legislative, Authorization, Program, and Budget Information System (LAPIS), an inventory currently containing information on over 6,000 Federal agency programs and activities. ^{1/} We also reviewed the list of Federal agencies, which includes off-budget entities and Government-sponsored enterprises, that is maintained by the Office of Management and Budget (OMB). Using the Justice Retrieval and Inquiry System (JURIS), we performed a legal search to identify laws authorizing Government corporations. Finally, we verified our listing of Government corporations with the records of audits that have been conducted by our office under the basic corporate control laws.

We identified the common attributes of Government corporations by reviewing both the basic corporate control laws and the individual corporations' enabling legislation. The attributes vary from one corporation to another. Most corporations have a board of directors, for example, but the number of Federal and private representatives varies. All corporations require funding but their financing mechanisms vary. Most of the enabling legislation contains provisions for accountability control but these, too, vary in both number and substance.

After analyzing the corporations' attributes and operating practices, we developed criteria and classifications that can be used for determining accountability standards. We present three specific classifications for Government corporations--predominately Federal, mixed Federal/private, and predominately private. Given these, we propose an accountability model to demonstrate that different accountability standards could be established for each of these corporate classifications.

In appendix I we present our inventory of Government corporations, including their classifications and significant attributes. In appendix II we present a matrix of the corporate operating characteristics as identified in their enabling legislation. Agency comments and our responses to them appear in appendix III.

^{1/}LAPIS was developed under authority of 31 U.S.C. 1112-1113, formerly Title VIII of the 1974 Congressional Budget and Impoundment Control Act, which requires the Comptroller General, in cooperation with the Secretary of the Treasury, the Director of OMB, and the Director of the Congressional Budget Office, to establish and maintain standard data processing and information systems for fiscal, budget, and program information.

CHAPTER 2

THE LEGISLATIVE BACKGROUND OF PUBLIC CORPORATION CONTROL

The Congress has established corporations to carry out business-type programs that need a high degree of autonomy and flexibility. For example, corporations have been created to meet economic emergencies and emergencies caused by war. Corporations have also been created to develop other projects that are not adaptable to private industry because of their nature or magnitude. For example, corporations such as the Federal National Mortgage Association, Federal Intermediate Credit Banks, and Federal Land Banks were formed to provide loans for individuals or groups who could not obtain credit in private markets. Other corporations were formed to provide insurance, to establish special educational programs, and to carry out public programs where specific private sector programs were unavailable.

HISTORY OF CORPORATIONS PRIOR TO 1945

Before the 1930s, there was not a pressing need for general procedures to govern the management of public corporations. Most corporations created to meet production needs during World War I were liquidated quickly. Therefore, their financial control was not at issue when the Congress passed the Budget and Accounting Act, 1921, (now codified in 31 U.S.C. 1101-1114), creating central budget procedures and establishing an independent audit function.

During the 1930s, a number of corporations were formed to help the economy. These corporations included the Commodity Credit Corporation, the Federal Deposit Insurance Corporation, the Federal National Mortgage Association, and the Tennessee Valley Authority. When these corporations were created, procedures for controlling them developed through piecemeal administrative action. A 1934 Executive order directed Government agencies, including corporations, to account for all receipts and expenditures to the General Accounting Office. But many corporations were soon exempted. After 1934, various Executive orders required that certain corporations submit annual estimates of administrative expenses to the Bureau of the Budget (now the Office of Management and Budget) for approval. In 1936, corporations were statutorily precluded from incurring administrative expenses unless these were specifically provided for in an appropriations act.

During the 1940s, several other corporations were created to support wartime production needs. By the mid-1940s, there were 63 wholly owned and 38 partly owned Federal corporations. At this time, the Congress recognized that these corporations needed to be effectively controlled.

THE GOVERNMENT CORPORATION CONTROL ACT OF 1945

Legislative control of Government corporations actually occurred in two stages during 1945. In February of that year, the George Act required GAO to audit the financial transactions of all Government corporations. In December, the more comprehensive Government Corporation Control Act superseded these audit requirements.

The Government Corporation Control Act of 1945 resulted from a 2-year Senate study that concluded that there was no effective overall control over Government corporations. Among the recommendations that grew from the study were that budgeting procedures should be improved and that GAO should be required to audit and report on Government corporate activities to the Congress. In hearings following the study, the final legislation was also influenced by the Bureau of the Budget, by GAO, and by the Department of the Treasury.

The Act was to make the corporations accountable to the Congress for their operations while allowing them the flexibility and autonomy needed for their commercial activities. Under the Act, OMB controlled the corporations' budget, Treasury controlled financial transactions, and GAO performed financial auditing. The Act also specified that only an act of Congress could create new Government corporations. At the time the Act was passed, all corporations then operating under State charters were to be dissolved and reincorporated.

DEVELOPMENTS AFTER 1945

Procedures for controlling Government corporations have been studied several times since adoption of the 1945 Act, and recommendations for improvements in the laws have been made. The proposals for improvement have been directed toward strengthening budgetary control over corporate activities and toward expanding legislative control to corporations not covered by the laws.

In 1949, the Commission on Organization of the Executive Branch of Government (the Hoover Commission) released a major study of Government corporations. The Commission found that there was confusion and duplication in the functions of Government corporations and referred to those in the agricultural field. The Commission also questioned financial reporting of subsidies (resulting from granting lower interest rates and incurring losses in capital) and stated that proper information about them was not plainly shown in annual budgets. Confusion was also pointed out between congressional appropriations to corporations and congressional authorizations for borrowing authority. Some changes in budget presentation and corporate organization were made after that, but the Commission's observations and recommendations were not followed through systematically.

The President's 1958 budget message to the Congress recommended changes in the Government Corporation Control Act to provide for budget and audit control over all Government corporations whether directly or indirectly authorized to obtain or use Federal funds. The proposal for extending the Act's coverage was repeated in the 1959 budget message. Legislation was subsequently introduced, but legislation was not passed because the farm credit banks argued persuasively enough for their own exclusion.

The 1967 report of the President's Commission on Budget Concepts also addressed budgetary control over Government corporations. The Commission concluded that the budget should include the full range of Federal activities, but it also recommended that some corporations be excluded from the budget. It did not want to include privately owned corporations with Government sponsorship --such as Federal Land Banks, Federal Home Loan Banks, and Banks for Cooperatives--because the absence of budgetary review had led to significant estimating problems. Additionally, because these corporations are privately owned, the Commission did not believe it necessary to include them in the annual budgetary review by OMB and the Congress. The Commission did recommend, however, that the total volume of loans outstanding and borrowings should be "included at a prominent place in the budget document as a memorandum item."

Following the Commission's recommendation, several Government corporations have been statutorily excluded from the budget. However, we have questioned the advisability of presenting Federal funding off-budget on the grounds that budget totals are understated and that the presentation of budget priorities is distorted.

Moreover, as new corporations began to emerge, other issues were raised about the number and purpose of Government corporations. For example, since the mid-1960s, congressional legislation has established 30 new corporations, including the Corporation for Public Broadcasting (1967), the National Railroad Passenger Corporation (Amtrak, 1970), the Rural Telephone Bank (1971), the Federal Financing Bank (1973), the Legal Services Corporation (1974), the Neighborhood Reinvestment Corporation (1978), the U.S. Synthetic Fuels Corporation (1980), and, most recently, the Northeast Commuter Services Corporation (1981). 1/

In 1982, P.L. 97-258 codified the 1945 Act's provisions in 31 U.S.C. 9101-9109 and repealed the 1945 Act. These sections of codified law constitute basic corporate control laws. The laws, however, do not subject 17 of the 30 new corporations to its accountability provisions. As a result, the coverage is not comprehensive and does not provide the effective control that the Congress intended.

1/Formerly known as Amtrak Commuter Services Corporation.

CORPORATIONS COVERED BY
BASIC CORPORATE CONTROL LAWS

Title 31 U.S.C. 9101 identifies two types of Government corporation--wholly owned and mixed ownership. Rather than providing standard definitions or criteria, the law simply enumerates the corporations included in each group--13 wholly owned ^{1/} and 9 mixed ownership. ^{2/} In addition to the 22 corporations covered by the basic corporate control laws, two other corporations--the Federal Financing Bank and the Inter-American Foundation--are subject to the audit provisions of the basic corporate control laws in accordance with requirements in their enabling legislation.

The laws provide similar audit and financial management requirements for the two kinds of corporations. However, certain requirements--including GAO's audit authority and certain checking account provisions--only apply to mixed-ownership corporations when Government capital is invested. In addition, only wholly owned corporations are required to submit an annual "business-type budget" for the President's review.

Budgetary, financial,
and auditing controls

The laws' budget provisions are intended to coordinate the operations of wholly owned Government corporations with other Federal activities and with legislative fiscal policy. The law requires wholly owned Government corporations to annually prepare and present business-type budgets. This business-type budget program, or operating plan, is more suited to the corporations' commercial operations than the usual administrative budgets required of agencies by 31 U.S.C. 1101-1114 (formerly the Budget and Accounting Act, 1921). Because 31 U.S.C. 9103 requires these corporations, like the agencies, to submit budgets to the President through OMB, the law assures that presidential review and revision will make the presentation of the activities of wholly owned corporations consistent with the overall budget. The law also establishes financial reporting requirements for wholly owned corporations.

Generally, 31 U.S.C. 9108 requires the Secretary of the Treasury to approve the security transactions of wholly owned and mixed-ownership corporations. Most corporations are required to keep their banking or checking accounts in the U.S.

^{1/}The law provides that the Rural Telephone Bank be designated as wholly owned until ownership, control, and operation of the bank is converted.

^{2/}We did not count the National Consumer Cooperative Bank because P.L. 97-35 changed its status.

Treasury. Exceptions are banking corporations and mixed-ownership corporations when no Government capital is invested. These corporations are exempted under 31 U.S.C. 9107(c)(2) and (c)(3). If approved by the Secretary, corporations may also keep their accounts with a Federal Reserve bank or a bank designated as a depository or fiscal agent of the United States. The Secretary has the authority to waive these requirements.

The law's audit provisions (31 U.S.C. 9105) are designed to give the Congress independent audit reports of the operations and financial condition of all Government corporations. GAO audits the financial transactions of all wholly owned corporations. It also audits the mixed-ownership corporations for any period during which Government capital is invested. GAO is required to prepare audit reports that state the scope of the audit (31 U.S.C. 9106). The audit reports must also include audited financial statements and other information the Congress needs to monitor the operational and financial condition of the corporation, as well as recommendations for improvement. GAO is also to report financial transactions it determines to be unauthorized by law. In addition to providing the Congress with information, the audits are intended to assist the President, the Treasury, and the corporations themselves.

CHAPTER 3

PROBLEMS CREATED BY INCONSISTENT DEFINITIONS AND CLASSIFICATIONS

Standard definitions and classifications are necessary for developing appropriate accountability controls. However, the existence of several definitions for Government corporations and inconsistencies among their classifications, organizational characteristics, operating practices, and accountability procedures complicate standardization. Moreover, Government corporations may need different degrees of control, depending on their characteristics and classifications.

PROBLEMS OF UNCLEAR DEFINITIONS

A uniform definition of a Government corporation has never been established. Title 5, section 103, of the U.S. Code defines, for purposes of this title, "Government corporation" as a corporation owned or controlled by the U.S. Government. But, it defines a "Government controlled corporation" as not including a corporation owned by the U.S. Government. Nowhere are the terms "controlled" or "owned" defined. The basic corporate control law is similarly unclear. Section 9101 of Title 31 U.S.C. defines Government corporations only by listing wholly owned and mixed-ownership corporations.

Government corporations have generally been described as identifiable, legal entities chartered by the Congress to carry out a public function under the laws of the United States (or sometimes under the laws of the District of Columbia). They possess legal powers similar to private corporations, such as the authority to

- buy, sell, and/or provide goods and/or services and, thereby, conduct a cycle of business transactions;
- generate, use, and reuse revenues; and
- sue and be sued, enter into contracts, borrow money, and acquire property in their own name.

Table 1 lists several entities that have exercised corporate powers to some degree. The question of whether they are all Government corporations in the context of corporate control legislation cannot be answered with a simple yes or no.

The U.S. Postal Service, for example, has the powers of a corporation but is not designated as such in its enabling legislation or in 31 U.S.C. 9101. It does not have a corporate charter. The Secretary of HUD, when carrying out duties related to the FHA Fund, exercises some powers similar to those possessed by corporations. For example, the Secretary can sue and be sued as a distinct legal entity. The basic corporate control legislation lists the Secretary as a wholly owned corporation.

Table 1

Are These Entities Government Corporations?

<u>Entity</u>	<u>Enabling legislation designation</u>	<u>31 U.S.C. 9101 designation</u>	<u>Power</u>
Corporation for Public Broadcasting	Nonprofit corporation	Not covered	Corporate
Federal Housing Administration Fund <u>a/</u>	Business enterprise	Wholly owned	Corporate for some purposes
Legal Services Corporation	Private nonmembership nonprofit corporation	Not covered	Corporate
Smithsonian Institution	Establishment	Not covered	Corporate for some purposes
U.S. Postal Service	Independent establishment	Not covered	Corporate
U.S. Synthetic Fuels Corporation	Not specified	Not covered	Corporate

a/The Fund was originally enacted as the Federal Housing Administration (FHA). P.L. 89-174, the Act of September 9, 1965, transferred all powers, functions, and duties of FHA to the Department of Housing and Urban Development (HUD). FHA now exists as a fund within HUD that provides mortgage insurance.

Another example of an entity that exercises some corporate powers is the Smithsonian Institution, an establishment that administers a charitable trust with the United States as trustee. Within the Smithsonian's organization are nonprofit foundations that can buy and sell property. Funds channeled through these foundations are considered private, and employees paid by these funds are not covered by civil service regulations. It does not appear that the Congress intended the Smithsonian to operate as a traditional agency, but the Congress did authorize the Smithsonian to promulgate Federal regulations--an ordinary function of Federal agencies. We believe this mixture of operating powers and authorities has caused confusion over whether the Smithsonian should be defined as a corporation or as an agency.

In contrast, three corporations clearly perform functions common to executive agencies. The Corporation for Public Broadcasting and the Legal Services Corporation administer grant programs. The U.S. Synthetic Fuels Corporation administers financial assistance programs that do not involve predominately business or commercial transactions. Technically, they could operate either as units of already existing agencies or as independent agencies. When they were given corporate status, it was because the President and the Congress wanted them to operate independently, free from certain managerial controls of executive agencies. Thus, they are distinctly different from the other entities we have described.

PROBLEMS OF INCONSISTENT CLASSIFICATIONS

Classification criteria that have generally been considered for Government corporations include management control, financing source (including stock ownership), and legislative designation. When classifying corporations, we considered the involvement of the Federal and private sectors in their management control and financing. In terms of management control, we considered the sector represented on the board of directors or represented by an administrator or a supervisory agency. In terms of financing, we considered funding in the form of appropriations or borrowing authority, earned revenue, and stock ownership. We found two classification practices in particular that create confusion: Some corporations with similar management and financing characteristics are classified differently in 31 U.S.C. 9101 while some other corporations with similar management and financing characteristics are consistently misclassified. (Table 2 illustrates.) It appears that the Congress varied classifications in the corporate control laws to exempt certain corporations from stricter controls that were generally applicable to all wholly owned or all mixed-ownership corporations.

As the table shows, several corporations are classified differently although they have similar management and financing characteristics. Examples of such corporations are the Legal Services Corporation and the U.S. Railway Association. The Legal Services Corporation has an 11-member board that is appointed by the President with Senate confirmation. It is funded entirely by appropriations and has no authority to issue stock. The U.S. Railway Association has a five-member board that includes three who are named Government officials, the Chairman of the Board of Conrail, and its own chairman who was appointed by the President. It is funded by appropriations but also has authority to issue obligations.

Similarly, two corporations--the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC)--are both mixed in management control and financing but are classified differently by 31 U.S.C. 9101. The FDIC has a three-member board that includes one named Government official and two Presidential appointees. The corporation is

Table 2

How Corporate Classifications Vary

<u>Classification practice</u>	<u>Management and financing characteristics</u>	<u>Enabling legislation classification</u>	<u>Government Corporation Control Act classification</u>
<u>Some corporations with similar characteristics classified differently</u>			
Legal Services Corporation	Predominately Federal	Private nonmembership nonprofit	Not covered
United States Railway Association	Predominately Federal	Nonprofit association	Mixed ownership
Federal Deposit Insurance Corporation	Mixed Federal/Private	Not specified	Mixed ownership
Federal Savings and Loan Insurance Corporation	Mixed Federal/Private	Not specified	Wholly owned

Some corporations with similar characteristics consistently misclassified

Regional Banks for Cooperatives	Predominately private	Not specified	Mixed ownership
Federal Intermediate Credit Banks	Predominately private	Not specified	Mixed ownership
Federal Land Banks	Predominately private	Not specified	Mixed ownership

financed by assessments from insured banks and has the authority to borrow from the Treasury. FDIC originally had wholly owned Government stock, which was subsequently retired. It is classified as mixed ownership by 31 U.S.C. 9101(2). The FSLIC, on the other hand, is classified as wholly owned. It is subject to the direction of the Federal Home Loan Bank Board, which consists of three members appointed by the President. FSLIC also derives funding from assessments that are paid by insured institutions. It has exercised its authority to borrow from the Treasury, but generates most of its own revenue. The corporation's stock has also been retired.

After reviewing the Legal Services Corporation and the U.S. Railway Association, we see no reason why they could not be classified as wholly owned by virtue of the Government's control over them. 1/ Their management control and funding, including

1/The Congress chose not to subject the U.S. Railway Association to budget and other controls applicable to wholly owned corporations, and therefore classified it as mixed ownership. Such exceptions could continue at the Congress' discretion.

appropriations, are Federal. Stock ownership is not a current condition for their classification. Also, we believe the FDIC and FSLIC should both be classified as mixed ownership. Their management control is Federal, and they generate their own revenue.

Moreover, several banking corporations--including the Regional Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks--have similar management and financing characteristics. They are consistently misclassified as mixed ownership, and we believe that this, too, creates confusion. When we compared the management and financing characteristics of these banking corporations, we found that they are managed by boards of directors representing primarily the private sector, and their capital stock is owned by private members or private associations. The current classification of these corporations in 31 U.S.C. 9101(2) as mixed ownership does not reflect their present status given their predominately private management and financing. Inconsistent classification creates confusion and raises the question of whether the accountability provisions in the law are appropriate for these corporations.

CHAPTER 4

A STANDARDIZED DEFINITION AND CLASSIFICATIONS WOULD ELIMINATE CONFUSION

A standardized definition is necessary to define Government corporations. The definition would identify unique powers and characteristics that require the use of a corporate structure. As a result, confusion over what is and what is not a corporation could be eliminated. Within the scope of the standard definition, classifications could be developed for corporations with similar management and financing characteristics, thereby facilitating the establishment of more reasonable and consistent accountability standards. This, too, would eliminate confusion and provide for better oversight control.

DEVELOPING CRITERIA FOR A STANDARDIZED DEFINITION

Title 31, section 9101, of the U.S. Code defines a Government corporation only by enumeration. However, it does not contain an up-to-date list of all Government corporations. No organization has been specifically assigned responsibility for maintaining such a list.

In March 1980, the Congressional Research Service asked us to develop an inventory of Government corporations to support its studies. The inventory is essential if an appropriate definition and classification criteria for Government corporations are to be determined. It will also be useful in establishing uniform accountability provisions appropriate to each classification.

As we began to develop our inventory, 1/ we recognized that definitional criteria were needed in order to identify corporate entities. We also recognized the need to distinguish corporate entities from enterprises and other non-corporate business activities of the Government. First, we identified Government corporations as entities established, created, or authorized by acts of Congress to operate as corporate bodies. Second, we reviewed the basic corporate control legislation and the legislative history of the 1945 Act, studies by the Congressional Research Service, and studies by experts on public enterprises. Based on our review and analysis, we established the following definitional criteria. Government corporations must

--be chartered under the laws of the United States;

1/The inventory was developed under authority in 31 U.S.C. 1112-1113.

- serve a public function of a predominately business nature; that is, they require the authority to buy or otherwise acquire or sell property or other assets in their own name; and,

- be subject only to Federal decisions, rules, administrative practices, and procedures that the Congress deems appropriate to a corporate activity.

Using these definitional criteria, we developed an inventory of 47 Government corporations, which is presented in appendix I. We believe these criteria present the unique powers and characteristics essential to corporate operations and distinguish corporations from other Federal entities.

ESTABLISHING STANDARD CLASSIFICATIONS FOR DETERMINING APPROPRIATE CONTROLS

Before we undertook this review, no comprehensive set of criteria existed to classify corporations. In developing our inventory, we have identified the common characteristics of currently existing Government corporations. We selected two characteristics--financing and management--as classification criteria and concentrated on the degree of Federal involvement in them. We recognize that other classification criteria could be developed. However, we believe the degree of Federal involvement in management and financing provides the best classification criteria for applying accountability standards.

In considering corporate financing, we found that Government corporations may sell stock to the Federal sector, the private sector, or both; may earn revenue; and may receive some form of Federal funding for operating costs or for administrative expenses. This funding may be in the form of appropriations or borrowing authority. We based our classifications on whether corporation financing, including stock ownership, is provided by the Federal sector, the private sector, or both.

When we considered the management of Government corporations, we found that they may be managed by a board of directors, an administrator, or a supervisory agency. The board of directors is formed according to provisions in each corporation's enabling legislation. Board membership may consist of representatives of the Federal sector, the private sector, or both. For those corporations not managed by a board of directors, we looked at the sector represented by the administrator or supervisory agency. Therefore, we based our classifications on the proportion of Federal and private representation on each board and the sector represented by the administrator or supervisory agency.

By assessing the proportion of Federal and private involvement in management and financing against the characteristics of individual Government corporations, we were able to discern three

general classifications--predominately Federal, mixed Federal/private, and predominately private. Since stock ownership does not apply to all these corporations, we have not used the term "ownership" in naming our classifications. We recognize that other classifications are possible and that others could interpret our criteria differently. However, these three classifications build upon those already identified in 31 U.S.C. 9101, and we feel they are useful in addressing revisions to accountability standards. In building upon classifications identified in the basic corporate control law, we do not intend to imply that legislation governing procurement, or other operating practices of corporations should generally be made applicable to corporations in any of our proposed classifications.

Predominately Federal corporations

We classified Government corporations as predominately Federal when the Federal sector directs and provides a major portion of the management and financing. We have defined Federal management control in terms of (1) direct responsibility to an agency head or the President and (2) the proportion of members on the boards of directors who are designated Federal officials or who are Presidential appointees.

We have also reviewed the source of financing for corporations in our inventory and identified as predominately Federal those receiving a major portion of their funding from appropriations, Federal borrowing, or Federal approval for sale of obligations. Federal ownership of stock is also Federal financing.

Title 31, section 9101(3) of the U.S. Code lists 13 wholly owned corporations. Applying our criteria, we have identified 19 corporations as predominately Federal. This number includes nine corporations that are listed in 31 U.S.C. 9101(3) as wholly owned, one that is listed in 31 U.S.C. 9101(2) as mixed ownership, and nine that are not listed in the law. Appendix I lists these 19 Government corporations.

Mixed Federal/private corporations

We have classified the corporations that have predominately private financing with Federal management control or a relatively even distribution of Federal and private involvement in their management and financing as being mixed Federal/private corporations.

Currently, seven corporations meet these criteria. The Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, National Credit Union Administration Central Liquidity Facility, Securities Investor Protection Corporation, Tennessee Valley Authority, and the U.S. Postal Service earn most, if not all, of their revenue from private sources and have federally controlled management. The Rural Telephone Bank is mixed in both management and financing.

We have also classified three rail corporations as mixed Federal/private. Northeast Commuter Services Corporation has a mixed board and Federal funding through appropriations. Consolidated Rail Corporation (Conrail) has a predominately Federal board and mixed financing. The National Railroad Passenger Corporation (Amtrak) has a mixed board and mixed financing and stock ownership. Appendix I lists the 10 corporations we have classified as mixed Federal/private.

Title 31 section 9101(2) lists 9 mixed-ownership corporations. Only three of these corporations meet our criteria for mixed constituency. Of the remaining six corporations, we classified one as predominately Federal and five as predominately private.

Predominately private corporations

Federally enacted private corporations all came into existence after the 1945 Act. To date, legislation has not been enacted to include all of them in the basic corporate control laws. We have classified Government corporations as predominately private when a major portion of their management and financing is directed and provided by the private sector. Additionally, we have classified as private those corporations designated as "Government-sponsored enterprises" in the President's budget. Government-sponsored enterprises are privately owned and are generally privately financed. Eighteen predominately private corporations are in our inventory.

We have defined private management control in terms of direct responsibility to a private constituency. We do not consider Government sponsorship to mean Federal management control. Members of the boards of directors of private corporations are generally elected by private constituencies, although there may be some federally designated members on the boards. For example, the National Park Foundation's board is appointed by the Secretary of the Interior; however, the board members function as private citizens, and the Foundation is not under agency control.

Predominately private corporations generally receive a major portion of their funding from selling private stock. However, some of these corporations may receive appropriations or Federal borrowing for administrative expenses and operating subsidies. Three permanently authorized corporations with private boards receive significant amounts of Federal funding. They are Gallaudet College, Gorgas Memorial Institute, and Howard University. We have classified these corporations as predominately private because they are privately directed and are like private research or educational institutes that receive Federal funding. The 18 corporations we have classified as predominately private are listed in appendix I.

Changes in classifications

The management and financing constituency of corporations can change over time and can result in the need for a change in classification. An example is the Federal National Mortgage Association, which changed from a predominately Federal corporation to a mixed-ownership corporation in 1954 and from a mixed-ownership to a private corporation in 1968. Most recently, the National Consumer Cooperative Bank moved from mixed ownership to a predominately private classification with passage of Public Law 97-35 on August 13, 1981.

CHAPTER 5

PROBLEMS CREATED BY INCONSISTENT ACCOUNTABILITY CONTROLS

Title 31, sections 9101-9109, of the U.S. Code prescribes accountability controls through budget reporting, financial audit, and Treasury review of financial transactions. However, these provisions of law do not address program oversight. Accountability controls are also prescribed in various corporate enabling legislation, but the controls vary widely. These inconsistent accountability standards and their inconsistent application create confusion and weaken financial accountability and program oversight.

THE INCONSISTENT APPLICATION OF FINANCIAL AUDIT CONTROLS

Title 31, section 9105, of the U.S. Code provides for triennial audits of the financial transactions of wholly owned corporations and mixed-ownership corporations during periods in which Government capital is invested. The audits must be conducted at least once every 3 years under the principles and procedures that apply to commercial corporate transactions and under the rules and regulations prescribed by the U.S. Comptroller General. Of the 47 corporations in our inventory, 24 are subject to audit controls of the basic corporate control legislation. Of the 23 corporations that are not subject to the law's controls, 15 are subject to audits of their financial statements by either GAO, public accountants, or both. The eight remaining corporations are neither subject to 31 U.S.C. 9105 nor do they contain audit provisions in their enabling legislation. A form of accountability is achieved, however, for six of these eight corporations through executive oversight activities. Two corporations--the National Park Foundation and the new Northeast Commuter Services Corporation--have no audit or executive oversight controls specified in their enabling legislation.

INCOMPLETE COVERAGE OF PROGRAM OVERSIGHT

Title 31, sections 9101-9109, of the U.S. Code does not require program oversight of Government corporations. Over the last 5 years, about 30 percent of our reports on corporations have addressed their management and program activities. These audits, however, have not addressed management and program activities of all the corporations. We believe program audits of Government corporations ensure the availability of independent information that the Congress needs for assessing program results. Comprehensive oversight, therefore, cannot be achieved without management and program audits.

Congressional oversight can also be facilitated through annual reporting requirements. Legislatively mandated annual reporting

requirements are stipulated in some corporations' enabling legislation. Appendix II shows that 30 Government corporations report annually to the Congress--17 of the 20 predominately Federal corporations, 7 of the 9 mixed Federal/private corporations, and 6 of the 18 predominately private corporations. This means that 17 of the 47 corporations in our inventory are not subject to congressional oversight by means of annual reports.

With respect to program termination as a congressional oversight mechanism, no provisions are set forth in 31 U.S.C. 9101-9109. In some cases, the Congress has legislated termination provisions in the corporations' enabling legislation, providing for either automatic continuance or explicit termination dates. Three corporations have termination dates specified in their enabling legislation--the Export-Import Bank, the Solar Energy and Energy Conservation Bank, and the U.S. Synthetic Fuels Corporation.

While termination dates may serve as a useful oversight tool for temporary corporations, periodic program review and reauthorization, as set forth in previously proposed oversight legislation, may be appropriate for all corporations. For example, a requirement for periodic program review would be universal in coverage. It would include review of program objectives and performance and thereby help the administering agencies as well as the Congress and its committees to monitor and select programs for review. Currently, management and program audits are not performed for all corporations on a regular basis, congressional reporting requirements are not uniform, and no procedures exist for program termination or periodic program review.

INCONSISTENT BUDGET REPORTING PRACTICES AND UNDERSTATED BUDGET TOTALS

Wholly owned Government corporations are required by 31 U.S.C. 9103 to annually prepare and present business-type budgets. The 1967 President's Commission on Budget Concepts also addressed budgetary controls over Government corporations, recommending that "the Budget should as a general rule be comprehensive of the full range of Federal activities. Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion." The Commission recommended that some corporations be excluded from the budget. Government-sponsored corporations were excluded because they are privately owned. Generally, these corporations are self-financed and, except for the Student Loan Marketing Association, have not used Federal financing or borrowing. The use of Federal borrowing by the Student Loan Marketing Association has raised the concern that the activities of corporations using Federal borrowing should be reported on-budget.

The financial transactions of the off-budget corporations are not reported consistently in the budget. A portion of the funding and outlays for these corporations is reported on-budget while receipts and the remainder of the funding and outlays are reported

off-budget. For example, the U.S. Synthetic Fuels Corporation is itself off-budget; however, the system of financing the corporation is devised so that its funding is included in the budget totals. Appropriated funds are provided to the Secretary of the Treasury for the purchasing of the corporation's notes. The payments are shown as Treasury outlays and are reported on-budget. These budget outlays count as income to the corporation and as an offset to the off-budget outlays. All other transactions of the corporation are reported off-budget.

In the case of the U.S. Railway Association, appropriations and related outlays for administrative activities are reported on-budget. The off-budget activities include receipts from loan repayments and interest on loans and short-term investments, and outlays against those receipts. Similarly, the Federal funding and related outlays for free and reduced-rate mail and other public services provided by the U.S. Postal Service are reported on-budget. Like the U.S. Railway Association, all other financial transactions are reported off-budget.

Finally, all financial transactions of the remaining two off-budget corporations--the Federal Financing Bank and the Rural Telephone Bank--are reported off-budget.

Because the operational activities of these five corporations are reported off-budget, they are not subject to the full discipline of the budget process as are the activities of the on-budget agencies. The off-budget reporting of receipts and spending means their fiscal activities are not reflected in either budget outlays or the budget surplus or deficit, appropriation requests for their programs are not included in the budget authority totals, and their outlays are not subject to the ceilings set by the congressional budget resolutions. As a result, their activities do not receive the same degree of scrutiny during congressional budget review as do the on-budget activities of the Government.

THE INCONSISTENT APPLICATION OF FINANCIAL TRANSACTION CONTROLS

Of the 47 corporations in our inventory, 23 are not subject to the financial controls established by 31 U.S.C. 9107-9108. These controls include requiring corporations to (1) maintain bank accounts with the Treasury or to receive Treasury approval for maintaining an account in a Federal Reserve bank or a bank designated as a U.S. depository or fiscal agent, (2) report annually to the Secretary of the Treasury the names of depositories where they keep banking or checking accounts, and (3) obtain Treasury approval of bonds, notes, debentures, and other security obligations regarding denomination, maturity, interest rates, terms, and conditions for offer to the public. Treasury also requires Government corporations receiving Federal funding to prepare a business-type financial statement that includes both a statement of income and retained earnings and a statement of financial condition.

The enabling legislation of 6 of the 23 corporations established since the passage of the 1945 Act addresses Treasury financial controls. These are the Federal Financing Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Student Loan Marketing Association, the U.S. Postal Service, and the U.S. Synthetic Fuels Corporation. Treasury authority over depositaries and security obligations applies to the U.S. Postal Service and the U.S. Synthetic Fuels Corporation. Treasury approval of only security obligations applies to the Federal Financing Bank, the Federal National Mortgage Association, and the Student Loan Marketing Association. Finally, Treasury authority over depositaries applies to the Federal Home Loan Mortgage Corporation.

CHAPTER 6

STANDARDIZED CONTROLS WOULD IMPROVE ACCOUNTABILITY

As the characteristics and behavior of corporations have been changing over time, accountability controls have been moving away from the requirements established in basic corporate control laws. These provisions of law could be strengthened if requirements for program audit, on-budget reporting, and periodic program review and reauthorization were added to the current requirements for audit, budget review, and Treasury financial controls. The law could be further improved by applying these controls uniformly to all Government corporations. Accountability standards could be developed to provide greater or lesser degrees of controls, as appropriate, to specific corporate classifications.

Using the criteria for definitions and classifications that we have presented, we have developed guidelines for corporation accountability. In formulating these guidelines, we have taken into consideration what degree of control would be appropriate for each corporate classification. For example, our guidelines assume that corporations with a high proportion of Federal representation on their boards of directors and also a high proportion of Federal financing could be controlled more tightly than corporations that are privately managed and financed.

The accountability model in Table 3 suggests a range of possible controls for Government corporations as we have classified them. For example, a predominately Federal corporation, such as the Commodity Credit Corporation, would be subject to the full range of controls including executive supervision; budget, audit, and Treasury financial controls; and congressional oversight and reauthorization.

A mixed Federal/private corporation, such as the U.S. Postal Service, would be subject to a lesser degree of controls. These controls would include executive supervision; budgetary and Treasury financial control over funds provided through appropriations; audit and investigations; and congressional oversight and reauthorization of funding provided through appropriations. Because the U.S. Postal Service generates most of its own revenues, the majority of its funding would not be subject to Federal budgetary controls.

Finally, predominately private corporations would have the lowest degree of accountability controls. Corporations such as Gallaudet College and Howard University would be supervised by the appropriate Government agency and would be subject to budget, audit, and Treasury financial controls over their appropriated funding. Congressional oversight would include periodic program review but not reauthorization because these entities are permanently authorized. In the case of the Communications Satellite

Corporation (COMSAT), not all of the accountability standards for predominately private corporations would apply because the corporation receives no Federal funding. COMSAT would, however, continue to be supervised by the National Aeronautics and Space Administration (NASA) and the State Department. NASA launches COMSAT's satellites and the State Department advises the corporation on business negotiations with foreign entities. The budget reporting, financial audit, and Treasury financial controls would also not apply to COMSAT. In addition, COMSAT is not subject to reauthorization; however, the Congress could determine the need to exercise periodic program review of the corporation.

In constructing this model, we have been concerned not only with policy judgments on degrees of corporation control and flexibility but also with the need to demonstrate a workable balance between accountability and flexibility. We feel that this can be accomplished by establishing uniform definitions, criteria, and accountability standards within 31 U.S.C. 9101-9109 and by establishing guidelines for the management and operation of corporations in the individual corporation's enabling legislation.

FINANCIAL AUDIT CONTROLS CAN BE APPLIED CONSISTENTLY

One of the intentions of the Congress in passing the 1945 Act was to establish uniform financial audit controls for Government corporations. Today, 23 corporations, or about half, are not subject to the financial audit controls of the basic corporate control law. As exceptions to the law, they represent a serious deficiency in corporation control. The law could be revised to bring all corporations under the provisions that pertain to financial audit controls.

The law currently provides that the GAO audit wholly owned and mixed-ownership corporations at least once every 3 years. The law also provides for a GAO audit of mixed-ownership corporations during any period in which Government capital is invested. (The Act does not address privately owned corporations.) In practice, we have audited mixed-ownership corporations once every 3 years when Government capital is invested and at our discretion when no Government capital is invested. Accountability could be strengthened by requiring an annual GAO audit, or an annual GAO review of audits performed by certified public accountants (CPAs). It could also be strengthened by requiring privately owned corporations that receive Federal funding to have audits similar to mixed Federal/private corporations.

Expenses incurred by GAO for performing financial audits of wholly owned or mixed-ownership corporations are to be paid out of GAO's appropriations, as required by 31 U.S.C. 9105(e). These expenses include the salaries and expenses of GAO auditors plus any costs for contracted audit support. Corporations must reimburse GAO for the full cost of any such audit as billed by GAO.

Table 3

Accountability Model for
Standardization of Controls

<u>Government</u> <u>corporations</u>	<u>Executive or</u> <u>supervisory</u> <u>oversight</u>	<u>Budget</u>
Predominately Federal	President, OMB, Treasury, depart- mental secretaries, and regulatory agency review the Budget	Appropriations under 31 USC Chap- ter 11 provisions (formerly the Bud- get and Accounting Act); on-budget reporting of Fed- eral borrowing, expenditures, and receipts; OMB and congressional re- view of budget requests
Mixed Federal/ private	President, OMB, Treasury, and reg- ulatory agency review	Appropriations under 31 USC Chap- ter 11 provisions (formerly the Bud- get and Accounting Act); on-budget reporting of Fed- eral borrowing, expenditures, and receipts; OMB and congressional re- view of budget requests
Predominately private	Executive agency supervision, reg- ulatory review, re- porting to OMB and to Congress	On-budget report- ing of Federal appropriations borrowing, expen- ditures, and receipts

<u>Audit and investigation</u>	<u>Treasury</u>	<u>Congressional oversight and reauthorization</u>
Agency Inspector General; GAO financial audits and periodic program audits; GAO review of CPA audits	31 USC Chapter 11 provisions (formerly the Budget and Accounting Act) and 31 USC Chapter 15 subchapter II provisions (formerly the Anti-deficiency Act) controls apply; Treasury approval for security transactions; accounts kept in Treasury or bank designated by Treasury; Treasury financial statements	Periodic program review and reauthorization of appropriations and spending
GAO review of CPA audits or GAO audit of Federal funds and periodic program audits	31 USC Chapter 11 provisions (formerly the Budget and Accounting Act) and 31 USC Chapter 15 Subchapter II provisions (formerly the Anti-deficiency Act) controls apply for Federal funding; Treasury approval for security transactions; accounts kept in Treasury or bank designated by Treasury; Treasury financial statements	Periodic program review and reauthorization of appropriations and spending authority
GAO audit or GAO review of CPA audits on use of Federal funds	31 USC Chapter 11 provisions (formerly the Budget and Accounting Act) and 31 USC Chapter 15 Subchapter II provisions formerly the Anti-deficiency Act) controls apply for Federal funding; Treasury financial statements	Permanently authorized with periodic program review

However, these funds must be deposited into the Treasury as miscellaneous receipts.

If GAO were required to perform annual instead of the current triennial financial audits, it would need a funding increase. The additional funding could be provided by increasing GAO's appropriations or by allowing GAO to retain the reimbursements. As an alternative, the law could be amended to allow all Government corporations to hire and pay CPAs directly for these audits. If the Congress chooses to allow only selected corporations to employ independent CPAs, the authority could be specified in the enabling legislation of those corporations.

The audit authority pertaining to Government corporations should continue to state the scope of GAO's review and its right of access to books, records, papers, files, and other such property belonging to entities being audited. As an alternative, the law could be revised to provide that corporations be audited by independent CPAs with GAO concurrence and review of the independent audits to ensure that generally accepted government audit standards had been used. These standards were promulgated by the Comptroller General in "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

Another alternative would be to revise the law to require each corporation to submit an annual report, including an opinion on the financial statements by GAO or an independent certified public accountant. Revising the law to include these controls would make financial auditing a more effective oversight tool. The Congress may choose to continue applying the audit standards of 31 U.S.C. 9105-9106 to non-corporate entities, such as the Secretary of HUD when carrying out the duties and powers related to the Federal Housing Administration Fund and the Agency for International Development lending programs. In these cases, the audit requirements could be stipulated in the basic program legislation with a reference to the appropriate audit provisions of the law.

PROGRAM OVERSIGHT CAN BE STRENGTHENED

In our report, "Observations on Oversight Reform" (PAD-81-17, 1981), we supported brief, periodic analysis of all programs that are subject to congressional oversight review. We stated that the oversight review process should be as universal in coverage as possible, covering all types of Federal programs and activities--direct expenditures, self-financing activities, regulatory programs, tax expenditures, and subsidy programs. We have developed an inventory of Federal programs, including Government corporations, within our Legislative, Authorization, Program and Budget Information System to provide the Congress with a substructure for reviewing broad policies, individual programs, and activities.

Creating a systematic and efficient process of program review requires several critical elements. Statements of objectives and performance evaluation are two of these elements. We have taken the position that these elements should be built into the legislative process. This would enable the Congress, when authorizing new programs or reauthorizing existing ones, to state program objectives as clearly and specifically as possible to facilitate oversight and evaluation of program performance. Provisions in the legislation establishing individual corporations could specify program objectives. The basic corporation control legislation could require periodic and brief reporting on all programs subject to oversight review. Currently, only 30 of the 47 Government corporations report annually to the Congress.

We also stated that periodic reporting on program performance would be useful to the Congress when monitoring and selecting programs for review. We recognize that program review procedures must be workable. On the one hand, such procedures must be sufficiently disciplined to assure that program information and analysis are developed and presented to the Congress in a way that will help it act responsibly when continuing, modifying, or terminating programs. On the other hand, the procedures must be flexible enough to permit the Congress to focus its limited time on productive review efforts. 1/

Generally, once Government corporations have been created, they have stayed in operation until they were abolished or until their functions were assigned to a Federal agency. Periodic oversight review of Government corporations could be used for determining whether they should continue, be terminated, or undergo a change of mission, structure, and classification. Termination clauses could be used, as appropriate, in the legislation for temporary corporations, such as the U.S. Synthetic Fuels Corporation. As we stated earlier, three corporations already have termination dates specified in their enabling legislation.

A flexible program review schedule needs to be developed so that the Congress can balance periodic review of all related programs against its committee workload. The review workload could be distributed over time so as not to exceed committee capabilities. The basic corporate control laws could be revised to include a provision for periodic program review using either H.R. 58 or H.R. 2, both of the 97th Congress, as a model.

1/Our report "Finding Out How Programs Are Working: Suggestions for Congressional Oversight," (PAD-78-3, November 22, 1977) provides guidance on how congressional committees could design legislative objectives and reporting requirements to enhance subsequent congressional oversight and decisionmaking with respect to the authorizing legislation.

In our reports and testimonies on oversight reform, we have recommended that the Congress consider including these critical elements in previously proposed oversight reform legislation such as H.R. 2 and H.R. 58. Establishing uniform requirements for management and program audit, periodic reporting of program accomplishments, and termination or periodic oversight review would strengthen accountability of Government corporations.

ON-BUDGET REPORTING CAN STRENGTHEN ACCOUNTABILITY

Six corporations receive Federal funds and report their funding off-budget, either entirely or in part. To facilitate Federal policy direction and accountability, all of their financing should be reported on-budget. The current practice of excluding all or some of their financing from the budget removes their activities from the full discipline of the budget process and weakens Federal management and financial control. Table 4 shows on- and off-budget funding for the six corporations. Excluding these corporations from the budget understates the budget totals in terms of budget authority, receipts, and outlays. This results in an unclear picture of Federal spending, revenues, liability, and deficit.

Total spending authority for these corporations includes not only authority to spend appropriated and borrowed funds (budget authority) but also authority to spend other funds such as repayments of loans and charges for services. We believe that gross obligations are a more accurate measure of spending authority than is budget authority. For the Congress to decide on budget totals and to make priority allocations among functions under the budget process, it must have complete information on the total (i.e., gross) levels of Federal activities.

On-budget reporting of financial transactions of these corporations would strengthen overall financial accountability in the Federal Government by providing information essential to longrange forecasts of revenues and expenditures. It would also strengthen management control by subjecting these corporations to the full range of executive and congressional decisionmaking processes.

FINANCIAL CONTROLS CAN BE STRENGTHENED

Financial controls over corporations can be strengthened by applying existing authority consistently. For example, Treasury controls, including approval of security obligations and designated depository agents, could be applied to the 23 corporations that are presently outside the purview of the basic corporate control laws, 31 U.S.C. 9107-9109.

Table 4

Comparison of On-Budget and Off-Budget Financing
(1981 Dollars in Millions)

<u>Corporation</u>	<u>On-Budget</u>				<u>Off-Budget</u>			
	<u>Budget Authority</u>	<u>Receipts</u>	<u>Total Obligations</u>	<u>Outlays</u>	<u>Budget Authority</u>	<u>Receipts</u>	<u>Total Obligations</u>	<u>Outlays</u>
Federal Financing Bank (FFB)	----	----	----	----	\$30,268.9	\$18,012.8	\$39,048.3	\$21,035.5
Rural Telephone Bank	----	----	----	----	126.5	85.1	212.3	113.7
Student Loan Marketing Association	----	----	----	----	2,222.6 a/	1,074.4	3,099.8	2,078.7
U.S. Postal Service	\$1,343.2	----	\$1,343.2	\$1,343.2	----	21,144.7	22,185.2	88.5
U.S. Railway Association	29.0	----	29.0	26.3	228.3	335.6	68.8	-266.8
U.S. Synthetic Fuels Corporation	----	----	----	---- b/	6.2 c/	6.2	6.2	----
Total	\$1,372.2	----	\$1,372.2	\$1,369.5	\$32,852.50	\$40,658.8	\$64,620.6	\$23,049.6

a/Authority to borrow--currently funded through the FFB. The Corporation actually borrowed \$1,955 million from the FFB in 1981.

b/Payments for the purchase of U.S. Synthetic Fuels Corporation's notes are shown as Treasury Department outlays.

c/Contract authority.

CHAPTER 7

CONCLUSIONS AND MATTERS FOR CONSIDERATION BY THE CONGRESS

CONCLUSIONS

During the last several years, we have studied ways to improve program accountability through the budgeting, reauthorization, and oversight processes. We have been interested in both strengthening accountability by means of better program and budget information and streamlining accountability processes by finding ways to simplify concepts and procedures. With respect to Government corporations, we have found many inconsistencies in operating practices and in the application of audit, budgetary, and financial controls. The establishment of several corporations outside the authority of the basic corporate control laws, 31 U.S.C. 9101-9109, raised significant issues about the need for uniform controls. In particular, inconsistent practices have caused confusion about the application of these laws.

Corporation controls are not standard. For example, not all Government corporations are subject to the accountability controls of 31 U.S.C. 9101-9109, and accountability procedures in the enabling legislation of corporations not covered by these laws vary widely. Inconsistencies in existing controls stem from the absence of a uniform definition and classification criteria. Because the basic corporate control laws fail to provide a standard definition and classification criteria, many corporations created since 1945 have become self defined and are classified either through their enabling legislation or through their operating practices.

No general or basic law provides full coverage of financial and program audit, budget, and financial controls over Government corporations. As a result, financial audit coverage of corporations is not comprehensive. Some corporations are subject to agency supervision or regulation but not to financial audit. Additionally, some corporations are not subject to agency supervision or financial audit controls. The coverage of management and program audits of corporations is not comprehensive. Budget reporting and review are not uniform. Because all Federal financing does not appear in the budget, budget totals are understated. Financial controls do not apply to the predominately private corporations although some of them receive Federal funds.

Accountability standards are needed for all Government corporations, including a definition, classification criteria, and accountability standards with regard to financial audit; program audit and oversight; on-budget reporting of Federal funding, expenditures, and receipts; and financial controls. These standards are needed for the following reasons:

1. Definitional criteria are needed as a guideline in determining whether to establish a Government corporation or an executive agency to carry out policies, missions, or programs.

2. Classifications, such as predominately Federal, mixed Federal/private, and predominately private, would facilitate the application of appropriate accountability standards.

3. Accountability standards would assure that proper information is available for policy and management decisionmaking. Such standards could be incorporated in a revision to 31 U.S.C. 9101-9109.

If such standards were established, then 31 U.S.C. 9101-9109 would become the standard, and individual corporate enabling legislation could incorporate the uniform standards by simple reference to these provisions of law. Based on the classification in the enabling legislation, the accountability controls in the revised basic corporate control laws appropriate to the corporations in that classification would apply. When corporations change their status, the Congress could amend the enabling legislation to reflect the new classification status. To the extent that a need to deviate from these standards was determined, for purposes of operating flexibility, the individual enabling legislation would have to specify the Federal practices and procedures to be followed.

An alternative to specifying corporate classifications in enabling legislation would be to include a statement of corporate status and the applicable accountability controls under the law in the annual financial report of each corporation. GAO could then render an opinion on the financial statement as well as the corporate status and applicable accountability controls. This alternative would obviate the need for amending legislation each time a corporation changed in status.

With respect to accountability standards for financial audit, program audit and oversight, on-budget reporting and financial controls, we believe that

--The basic corporate control law should provide for financial audits of all corporations receiving Federal financing. The audit authority in the law should continue to state the scope of GAO review and our right of access to books, records, papers, files, and other such property belonging to the audited entities. Financial audit controls should be strengthened by requiring an annual audit of each corporation's financial statements by GAO or, where the Congress may deem it appropriate, by an independent certified public accountant with GAO concurrence and review. Provisions for audits by such accountants should be stipulated in the corporate control legislation. All audits should be conducted in accordance with "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" as promulgated by GAO.

- Program audit and congressional oversight of corporations should be performed periodically to help achieve greater program efficiency and effectiveness. Uniform requirements for periodic reports to the Congress on program accomplishments should be instituted. Such reports should also contain GAO's or the independent certified public accountant's opinion on the corporations' financial statements. Additionally, corporate enabling legislation should specify program objectives to facilitate program review and oversight. A workable review schedule should be developed so that the Congress can periodically review all corporations over time and monitor and select programs for further review without exceeding committee capabilities.
- The Congress should extend budget coverage so that it includes all Federal entities. All Government corporations that are off-budget and that receive Federal funds, or use a line of credit from the Department of the Treasury, should be brought on-budget. On-budget reporting of financial transactions of all such Government corporations would ensure that their revenues and expenditures are included in the budget totals. (Privately financed corporations receiving no Federal funding through appropriations or Federal borrowing would have no Federal financing, revenues, or expenditures to report, of course.)
- Existing financial controls should be made to apply to all federally funded corporations.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider establishing uniform accountability standards for Government corporations, including a definition, classification criteria, and general accountability standards for all Government corporations. This could be done by revising the basic corporate control laws, 31 U.S.C. 9101-9109.

Title 31, section 9101, of the U.S. Code could be amended to include a definition that describes Government corporations and a list of their common powers or attributes. In addition, criteria could be set forth to identify three classifications of corporations--predominately Federal, mixed Federal/private, and predominately private. Based on the definition and classification criteria, sections 9103 through 9109 of 31 U.S.C. could be revised and expanded to include accountability standards, such as financial audit, program audit and oversight, on-budget reporting and budget review by the Congress, and Treasury financial controls, for all Government corporations.

Financial audits should be required for all corporations receiving Federal funding, borrowing, or capital investment. Section 9105 of 31 U.S.C. could be revised to cover predominately private corporations when Federal financing has been used.

To provide comprehensive coverage, the Congress should consider granting authority for annual GAO audits, or GAO review of annual CPA audits to assure consistency with audit standards. If the Congress chooses to grant authority for GAO review of CPA audits, then 31 U.S.C. 9105(e) should be amended to allow Government corporations to pay the cost of private CPA audits of their financial records. If, however, the Congress chooses to grant authority for annual GAO audits, it would need a funding increase. This could be accomplished by increasing GAO's appropriation or by allowing GAO to retain reimbursements from the corporations.

Requirements for program audit and oversight are not covered in the basic corporate control legislation. The Congress should consider expanding 31 U.S.C. 9105 or adding a new provision of law to provide for periodic program review of these congressionally authorized programs. The revision could also require submission of annual reports to the Congress for all corporations.

The Congress should consider the need for on-budget reporting of financial transactions for all corporations receiving Federal capital, appropriations, or borrowing. Sections 9103 and 9104 of 31 U.S.C. could be revised to provide for congressional review of the budgets of mixed Federal/private and predominately private corporations receiving Federal financing in addition to those of predominately Federal corporations. On-budget reporting would facilitate congressional review because the budget totals would reflect the full range of revenues and expenditures.

The Congress should consider the applicability of sections 9107 and 9108 of 31 U.S.C. to all Government corporations. Currently, Treasury Department approval of accounts and security obligations only applies to 24 of the 47 Government corporations listed in our inventory.

Once the law has been revised, the enabling legislation of the individual corporations should be amended for consistency with the law's overall definition, classifications, and accountability standards, except where it is determined that specially tailored practices are needed. In establishing new corporations or revising existing ones, the Congress should maintain consistency with the practices specified in the revised laws. These steps will insure the integrity of the basic corporate control legislation.

AGENCY COMMENTS AND GAO'S EVALUATION

The Department of the Treasury and the Office of Management and Budget commented on our report. Treasury concurred with our position that the law requires updating to improve financial controls and to assist in the development of standards. Treasury also provided revisions to data presented in the "Financing" column of appendix I. We included these revisions in the appendix. OMB stated that the report was "generally constructive

and a contribution to the ongoing dialogue on creating and managing government corporations." OMB also commented on certain aspects of the report that it believed were in need of more explanation. OMB's comments are discussed in detail in appendix III.

AN INVENTORY OF GOVERNMENT CORPORATIONS

We developed an inventory of Government corporations to support analyses of their accountability. Based on the following criteria, we included 47 Government corporations in the inventory. First, Government corporations are entities established, created, or authorized by acts of Congress to operate as corporate bodies. Second, Government corporations must

- be chartered under the laws of the United States,
- serve a public function of a predominately business nature that requires the authority to buy or otherwise acquire or sell property or other assets in their own name, and
- be subject only to Federal decisions, rules, administrative practices, and procedures that the Congress deems appropriate to a corporate activity.

We found three Federal entities designated as corporations in their enabling legislation that meet most of our definitional criteria. However, they do not carry out business-type functions. These entities are the Corporation for Public Broadcasting, the Legal Services Corporation, and the U.S. Synthetic Fuels Corporation. As organizations created primarily to provide financial assistance, their operations do not require corporate status. We have included them in our inventory of Government corporations because the Congress established them as corporate entities, and we believe they should be given consideration if the basic corporate control laws, 31 U.S.C. 9101-9109, are amended.

Several other Federal entities that carry out business-type functions do not meet all the criteria of our definition, and we have not included them in our inventory. However, we have made an exception in the case of the U.S. Postal Service because of its structural formation and operating functions. The Postal Service is a highly business-type operation which we feel needs the flexibility a corporate structure affords. The absence of a charter was not a sufficient reason to warrant its omission.

The U.S. Postal Service was created by an act of Congress as an "independent establishment" of the executive branch, with the intention that it would provide a "business-like" environment for postal operations. Its duty is to provide adequate and efficient postal services at fair and reasonable rates and fees. Despite its creation as an independent establishment rather than as a corporation, the Postal Service is authorized to carry out the functions of a corporation, and it meets all our other criteria.

We have not included the international banking institutions in our inventory, although they are corporate bodies, because they are not U.S. corporations. These are the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, and

the International Finance Corporation. As a member Nation in these organizations, the United States participates with other member countries in economic development programs. These entities serve an international function and have special status, immunities, and privileges. Accountability controls appropriate for Government corporations would not be appropriate for them.

We have not included the regulatory banking agencies in our inventory because they are governing bodies and were not chartered to operate as corporations. They were created as independent establishments with broad supervisory and regulatory functions. We have, however, included corporations that are under their purview or jurisdiction. For example, the Board of Governors of the Federal Reserve System, which is not in our inventory, sets policy that influences monetary and credit conditions and supervises the Federal Reserve Banks, which are corporate entities and are in our inventory. Similarly, the Federal Home Loan Bank Board is not in our inventory; it formulates policy for and supervises the operations of the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, and the Federal Savings and Loan Insurance Corporation. These are corporate entities in our inventory. The National Credit Union Administration charters, supervises, insures, and examines privately chartered Federal credit unions, which are not in our inventory, and manages the National Credit Union Administration Central Liquidity Facility, which is a federally chartered corporation in our inventory. Finally, the Farm Credit Administration supervises, examines, and coordinates the borrower-owned banks and associations that make up the cooperative Farm Credit System, which includes the Federal Intermediate Credit Banks, Federal Land Banks and Land Bank Associations, the Production Credit Associations, the Banks for Cooperatives and the Central Bank for Cooperatives. As corporate entities these, too, are all in our inventory, while the Administration itself is not.

We have not included patriotic and public service corporations because, although they are federally chartered, their corporate bodies comprise a number of private individuals who raise funds entirely from the private sector. Accountability provisions appropriate for Government corporations would not be appropriate to these corporations.

We have not included the Government-sponsored nonprofit contract corporations that emerged in the years following World War II primarily to support scientific and technological development. In those years, the initiative and responsibility for promoting research and development activities shifted from private enterprise to the Federal Government. Lacking the resources and expertise to undertake this new and rapidly growing role, the Government saw nonprofit corporations as a viable alternative.

Defense Department agencies, for example, sponsored the establishment of the RAND Corporation, the Institute for Defense Analysis, and the Mitre Corporation to provide scientific and technical research and services. We have excluded them from our inventory, however, because they were not established by an act of Congress.

Inventory of Government Corporations

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority	GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
Predominately Federal							Predominately Federal						
Commodity Credit Corporation	Wholly owned	8 members: Secretary of Agriculture (Chairman) and 7 appointed by the President with advice and consent of the Senate	Capital stock of \$100M subscribed by Treasury; authority to borrow not to exceed \$25B	Subject to GCCA and supervision and direction by Secretary of Agriculture	100% Government owned	15 USC 714 et seq	Inter American Foundation	Nonprofit	7 members appointed by the President with Senate confirmation	Appropriations and private funds	Subject to GCCA	No stock	22 USC 290f
Corporation for Public Broadcasting	Private non-profit	10 members appointed by President with Senate confirmation	Mainly appropriations but also private funds	Audit by independent CPAs and GAO in any year when Federal funds are made available for operations	No stock	47 USC 396	Legal Services Corporation	Private non-membership nonprofit	11 members appointed by the President with Senate confirmation	Appropriations	Audit by independent CPAs. GAO may audit for any fiscal year when Federal funds are available to finance any portion of operations	No stock	42 USC 2996-2996k
Export Import Bank of the United States	Wholly owned	5 members appointed by the President with Senate confirmation	\$6B line of credit from Treasury	Subject to GCCA	100% Government owned	12 USC 635-635i	National Homeownership Foundation	Private nonprofit	18 members: 3 ex officio (Secretary of HUD, Secretary of Agriculture, Director of CSA) and 15 appointed by the President with Senate confirmation	Unfunded; authorization for appropriations	Commercial type audit by GAO	No stock	12 USC 1701Y
Federal Crop Insurance Corporation	Wholly owned	7 members appointed by Secretary of Agriculture: 3 from Dept. of Agriculture and 4 non-Government employees	Capital stock of \$500M subscribed by Treasury	Subject to GCCA and general supervision by Secretary of Agriculture	100% Government owned	7 USC 1503 et seq	Neighborhood Reinvestment Corporation	Not specified	6 members: Chairman of FHLBB, Secretary of HUD, Chairman of FDIC, member of Federal Reserve Board, Comptroller of the Currency, and Administrator of NCUA	Appropriations	Must prepare a business type budget statement. GAO may audit during any fiscal year when Federal funds are available to finance operations of the corporation or the corporation's grants and contracts; also GAO shall audit the corporation at least once every 3 years; audit by independent CPAs	No stock	42 USC 8101-8107
Federal Financing Bank	Corporate instrumentality of the U.S. Government	5 members; Secretary of the Treasury (Chairman) and 4 appointed by the President from officers and employees of the Bank or of any Federal agency	Initial capital not to exceed \$100M from Secretary of the Treasury; open ended borrowing from Treasury; not more than \$15B in total obligations outstanding with the public at any one time	Not under GCCA, but budget and audit provisions for wholly owned Government corporations apply; subject to the general supervision and direction of the Secretary of the Treasury	No stock	12 USC 2282-2286	New Community Development Corporation	Not specified	7 members: Secretary of HUD, 5 appointed by Secretary of HUD, 1 appointed by the President with Senate confirmation	Authority to borrow from the Treasury	Direction and supervision by Secretary of HUD	No stock	42 USC 4532-4518(b)
Federal Prison Industries, Inc.	Wholly owned	6 members appointed by the President	Revenue derived from sale of products and services to other Federal agencies and made available through appropriations acts	Subject to GCCA	No stock	18 USC 4121 et seq	Government National Mortgage Association	Wholly owned	All powers vested in Secretary of HUD	Open-ended borrowing permitted from Treasury	Subject to GCCA	No stock	12 USC 1716-1723b

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
Predominately Federal						
Overseas Private Investment Corporation	Wholly owned	15 members: Administrator of AID (Chairman), the U.S. Trade Representative or the Deputy U.S. Trade Representative (Vice Chairman), President of the corporation, ex officio, 8 appointed by the President with Senate confirmation, and 4 U.S. officials designated by the President	\$20M capital stock subscribed by the Treasury; appropriations to replenish or increase insurance fund; line of credit from Treasury not to exceed \$100M	Subject to GCCA	100% Government owned	22 USC 2191-2200a
Pennsylvania Avenue Development Corporation	Wholly owned	15 voting members: 7 named Government officials and 8 private citizens appointed by the President; 8 non-voting Government officials appointed by the Chairman	Appropriations; line of credit from Treasury not to exceed \$100M; may seek congressional authority to issue marketable obligations	Subject to GCCA	No stock	40 USC 871-885
Pension Benefit Guaranty Corporation	Wholly owned	3 members: Secretary of Labor (Chairman), Secretary of the Treasury, and Secretary of Commerce	Self-financed by revolving funds in Treasury; \$100M line of credit from Treasury	Subject to GCCA	No stock	29 USC 1301-1381
Saint Lawrence Seaway Development Corporation	Wholly owned	Administrator appointed by the President with advice and consent of the Senate and an Advisory Board of 5 members appointed by the President with advice and consent of the Senate	Revenue derived from tolls charged for use of facilities and made available through appropriations acts; may issue revenue bonds to Treasury up to \$140M	Subject to GCCA and supervision and direction by Secretary of Transportation	No stock	33 USC 981-990
Solar Energy and Energy Conservation Bank*	Not specified	5 members: Secretary of HUD, Secretary of DOE, Secretary of the Treasury, Secretary of Agriculture, and Secretary of Commerce	Appropriations	Audit by GAO	No stock	12 USC 3601 et seq.

*Proposed for termination in the Fiscal Year 1983 Budget.

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
Predominately Federal						
U. S. Railway Association	Nonprofit association	5 members: Secretary of Transportation, Comptroller General of the U.S., Chairman of the ICC, Chairman of Conrail Board of Directors, and the current Chairman of USRA (who was appointed by the President). USRA is also served by an Advisory Board made up of members who had served on USRA's Board of Directors on August 12, 1981	Appropriations; may also issue obligations not to exceed \$395M outstanding at any one time	Subject to GCCA; submits budget concurrently to OMB and to the Congress	No stock	45 USC 711-729
U. S. Synthetic Fuels Corporation	Not specified	7 members appointed by the President with Senate confirmation	Appropriations to the Secretary of the Treasury for purchasing the corporation's notes; and \$208 borrowing from appropriated funds from Treasury	Audit by GAO and CPAs; audits, investigation, and inspection by the corporation's Inspector General	No stock	42 USC 8711-8796
Mixed Federal/Private						
Consolidated Rail Corporation (Conrail)	Private for profit	13 members: 6 elected by stock, debentures, and Series A preferred stockholders; 3 elected by Series B preferred stockholders; 2 elected by common stockholders; and the chief executive officer and chief operating officer of the corporation	Appropriations to permit USRA to purchase up to \$18 of debentures, up to \$2.68 of Series A preferred stock, and \$262M of Series A preferred stock and accounts receivable; authority to issue debt instruments, Series B preferred stock, and common stock; revenues from charges for rail services	Audit by GAO in any year when Federal funds are being used to finance operations under 45 USC 747; audit and examination by USRA, GAO, and Secretary of Transportation until financial assistance is repaid under 45 USC 722	USRA, Department of Transportation, and others	45 USC 741-794, 722
Federal Deposit Insurance Corporation	Mixed ownership	3 members: Comptroller of the Currency and 2 appointed by the President with advice and consent of the Senate	Authority to borrow from Treasury for insurance purposes; assessments made against insured banks	Subject to GCCA	No stock (retired)	12 USC 1811 et seq.

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
<u>Mixed Federal/Private</u>						
Federal Savings and Loan Insurance Corporation	Wholly owned	Under direction of FHLBB	Original capitalization of \$100M subscribed by U.S. has been repaid with interest; authority to borrow up to \$750M from Treasury; assessments (premiums) made against insured institutions	Subject to GCCA	No stock (retired)	12 USC 1725 et seq.
National Credit Union Administration Central Liquidity Facility	Mixed-ownership	Managed by the NCUA Board (3 members appointed by the President with Senate confirmation)	Capital subscription from member credit unions; authorized to borrow up to \$500M from Treasury	Subject to GCCA	Member credit unions	12 USC 1795, 1752a
National Railroad Passenger Corporation (Amtrak)	Private as a for profit mixed-ownership	9 members: Secretary of Transportation, ex officio, 3 appointed by the President with Senate confirmation, 2 selected by commuter authorities, 2 elected by stockholders, and the President of the Corporation	Common stock sold to railroads; guaranteed loans; Treasury borrowings; appropriations; and may issue bonds, notes, and other certificates of indebtedness; revenues from charges for rail services	Subject to GCCA except for audit. Performance audit required under 45 USC 64412(A); audit by independent licensed public accountants	Common stock to railroads; preferred stock to the Secretary of Transportation	45 USC 501, 502, 541-645
Northeast Commuter Services Corporation*	Not specified	6 members: President of Northeast Commuter, ex officio, 1 member of Amtrak's Board of Directors, 2 members selected by Amtrak's Board of Directors, and 2 members from commuter authorities	Appropriations to the Secretary of Transportation to help defray start-up costs of commuter services; authority to issue common stock to Amtrak	None	Amtrak	45 USC 681 et seq.
Rural Telephone Bank	Wholly owned	13 members: 6 designated by the President (3 from Agriculture and 2 from the public who will resign when 51% of the class A stock is retired), 6 elected from cooperatives eligible to receive loans, Administrator of REA, and Governor of FCA (Both ex officio)	\$600M authorized in Government stock subscription; borrowers required to invest in stock that is retired over a period of years; sale of obligations to public and Treasury	Subject to GCCA as a wholly owned Government corporation until converted to private ownership	Government and others	7 USC 941-950b

*Formerly known as the Amtrak Commuter Services Corporation

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
<u>Mixed Federal/Private</u>						
Securities Investor Protection Corporation	Private nonprofit	7 members: 1 appointed by the Secretary of the Treasury, 1 appointed by the Federal Reserve Board, and 5 appointed by the President with Senate confirmation (3 from industry, 2 from the public)	Authorized to receive up to \$1B in Treasury loans through SEC (not used); assessments against members	Subject to examinations and inspections by SEC	No stock	15 USC 78aaa-78lll
Tennessee Valley Authority	Wholly owned	3 members appointed by the President with advice and consent of the Senate	Appropriations and revenues from sale of power	Subject to GCCA	No stock	16 USC 831 et seq.
U.S. Postal Service	Independent establishment of the executive branch	11 members: 9 appointed by the President with Senate confirmation, Postmaster General, and Deputy Postmaster General, ex officio	Transferred assets of former Post Office Department; sale of obligations to public or to Treasury not in excess of \$10B; appropriations for non self-sustaining services; revenues from services rendered	Must prepare business-type budget statement; subject to GAO audit; may obtain audits by CPAs	No stock	39 USC 201 et seq.
<u>Predominately Private</u>						
Banks for Cooperatives	Mixed-ownership	7 members (for each of the 12 Farm Credit District Boards): 2 elected by Federal land bank associations, 2 elected by production credit associations, 2 elected by borrowers from or subscribers to the bank for cooperatives guaranty fund, and 1 appointed by Governor of FCA with advice and consent of the Federal Farm Credit Board	Capital stock subscribed by member cooperatives and Governor of the FCA	Subject to GCCA and supervision by FCA	Member cooperatives	12 USC 2121-2134, 2151, 2223, 2254

GAO Classification Predominately Private	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
Central Bank for Cooperatives	Mixed ownership	Up to 13 members: 1 elected from each Farm Credit district and 1 member at large appointed by Governor of FCA with advice and consent of Federal Farm Credit Board	Capital stock subscribed by member cooperatives and by Governor of FCA	Subject to GCCA and supervision by FCA	Member cooperatives	12 USC 2121-2134, 2151, 2254
Communications Satellite Corporation (Comsat)	Private for profit	15 members: 12 elected by stockholders and 3 appointed by the President with Senate confirmation	Capital stock sold to the public	Regulation by FCC as a private utility	100% privately owned	47 USC 731-735
Federal Home Loan Banks	Mixed ownership	14 directors for each bank: 8 elected by members and 6 appointed by the FHLBB	Capital subscription by members	Subject to GCCA	Member banks	12 USC 1421 et seq.
Federal Home Loan Mortgage Corporation	Not specified	FHLBB	\$100M common stock subscribed by Federal Home Loan Banks and sales of obligations	Commercial type audit by GAO	Federal Home Loan Banks	12 USC 1452-1459
Federal Intermediate Credit Banks	Mixed ownership	Not specified	Capital stock subscribed by production credit associations and Governor of FCA	Subject to GCCA and supervision by FCA	Production credit associations; nonvoting stock issued to Governor of FCA	12 USC 2071-2079, 2151, 2254
Federal Land Bank Associations	Not specified	Not specified: directors elected from voting shareholders	Stock subscribed by members of the associations	Subject to supervision of Federal Land Bank for the district and FCA	Bank borrowers	12 USC 2031-2034, 2051-2055, 2254
Federal Land Banks	Mixed ownership	Not specified	Capital stock subscribed by Federal Land Bank Associations, direct borrowers through agents who are farmers or ranchers, and Governor of FCA	Subject to GCCA and supervision by FCA	Federal Land Bank Associations and direct and indirect borrowers; nonvoting stock issued to Governor of FCA	12 USC 2011-2020, 2051-2055, 2151, 2254
Federal National Mortgage Association	Government sponsored private corporation	15 members: 10 elected by stockholders and 5 appointed by the President	\$2.25B line of credit from Treasury; capital contributions from mortgage sellers or borrowers	Subject to general regulatory power of Secretary of HUD	100% Privately owned	12 USC 1716-1723b

GAO Classification Predominately Private	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
Federal Reserve Banks	Not specified	9 members for each bank: 6 elected by stockholding banks and 3 designated by Board of Governors of Federal Reserve System	Capital stock subscribed by member banks	Audit by GAO subject to general regulatory powers of Board of Governors of Federal Reserve System	Member banks and others	12 USC 281-290, 301-308
Gallaudet College	Private nonprofit	21 members: 1 Senator appointed by the President of the Senate, 2 Representatives appointed by the Speaker of the House, and 18 nonpublic members	Appropriations; tuition, fees, etc.	Subject to GAO audit and settlement	No stock	Act of Feb. 16, 1857 (11 Stat. 161) as amended by P. L. 83-420
Gorges Memorial Institute of Tropical and Preventive Medicine, Inc.	Private nonprofit	47 members: officials of the Governments of United States and Panama, representatives of national and international agencies, and leading U.S. and Latin American scientists and other professionals	Appropriations; may accept funds from any Latin American Government	Subject to GAO audit and audit by independent CPAs	No stock	22 USC 478
Howard University	Private nonprofit	31 members of Board of Trustees all nonpublic: 25 perpetual members, 2 elected graduates, 2 elected students, and 2 elected from faculty	Appropriations; tuition, fees, etc.	Books open to inspection by Dept. of Education	No stock	20 USC 121-129

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
<u>Predominately Private</u>						
National Consumer Cooperative Bank*	Not specified	15 members: 3 appointed by the President with Senate confirmation and 12 members elected by holders of Class B and Class C stock	Appropriations; sale of debt instruments; capital stock subscribed by Government, borrowers from the Bank, cooperatives eligible to become borrowers, organizations owned and controlled by such borrowers, foundations, trust or charitable funds, public bodies, and other public or private investors	Examination and audit by the FCA and GAO	Borrowers of the Bank and Government	12 USC 3011 et seq.
National Corporation for Housing Partnerships	Private for profit	15 members: 12 elected by stockholders and 3 appointed by the President with Senate confirmation	Authority to issue stock; revenues from operations	Audit by independent CPAs	100% privately owned	42 USC 3931-3941
National Park Foundation	Charitable nonprofit corporation	Up to 23 members: Secretary of Interior (Chairman), Director of National Park Service (Secretary), and 6-21 private citizens appointed by Secretary of the Interior	Services by Interior and Justice without reimbursement, donations, gifts and bequests from private sector	None	No stock	16 USC 19 a-n
Production Credit Associations	Not specified	Not specified	Capital stock subscribed by eligible borrowers and Governor of FCA	Subject to supervision by the Federal Intermediate Credit Banks of the district and FCA	Members who are eligible borrowers	12 USC 2091-2098, 2151, 2254

*We classified the National Consumer Cooperative Bank as predominately private because P.L. 97-35 provided the conversion of the bank to a private financial institution beginning with the conversion of U.S. owned class A stock on December 31, 1981.

GAO Classification	Corporate Legal Status	Board of Directors	Financing	Controls	Stock Ownership	Legal Authority
<u>Predominately Private</u>						
Student Loan Marketing Association	Government-sponsored private corporation	21 members: 14 elected by stockholders and 7 appointed by the President	Authority to borrow from the FFB; can issue debt obligations with approval of Secretary of Education and Secretary of the Treasury	Dept. of Education approval of borrowing; audit by independent CPAs	100% privately owned	20 USC 1087-2

obligations guaranteed by Secretary of Education can issue common stock to insured lenders

Corporate Operating Characteristics Specified in Enabling Legislation and in the Basic Corporate Control Laws

	Management and Operation				Accountability						
	Structure	Purpose / Policy	Personnel	Procurement	Audit			Budget Controls	Treasury Financial Controls	Specified Termination	Reporting Requirements
					GAO	CPA	Other				
Predominately Federal											
<u>Commodity Credit Corporation^{a/}</u> P.L. 80-806, Commodity Credit Corporation Charter Act, as amended	yes	yes	yes	yes	GCCA ^{b/}	no	no	GCCA	GCCA	no	yes
<u>Corporation for Public Broadcasting^{c/}</u> P.L. 73-416, The Communications Act of 1934, as amended by P.L. 90-129, The Public Broadcasting Act of 1967	yes	yes	yes	yes	yes	yes	no	yes	no	no	yes
<u>Export-Import Bank of the United States</u> P.L. 79-173, Export-Import Bank Act of 1945, as amended	yes	yes	yes	no	GCCA	no	no	GCCA	GCCA	yes	yes
<u>Federal Crop Insurance Corporation</u> P.L. 75-430, Federal Crop Insurance Act, as amended	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	yes
<u>Federal Financing Bank</u> P.L. 93-224, Federal Financing Bank Act of 1973	yes	yes	yes	yes	<u>c/</u>	no	no	<u>c/</u>	yes	no	yes
<u>Federal Prison Industries, Inc.</u> P.L. 73-461, Act of June 23, 1934	yes	yes	no	no	GCCA	no	no	GCCA	GCCA	no	yes
<u>Government National Mortgage Association</u> P.L. 73-479, National Housing Act, as amended by P.L. 90-448	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	no
<u>Inter-American Foundation</u> P.L. 91-175, Foreign Assistance Act of 1969, as amended	yes	yes	yes	yes	<u>c/</u>	no	no	<u>c/</u>	<u>c/</u>	no	no
<u>Legal Services Corporation</u> P.L. 88-452, Economic Opportunity Act of 1964, as amended	yes	yes	yes	yes	yes	yes	no	no	no	no	yes

^{a/}The corporation was organized under State law in 1933 and rechartered under Federal law in 1948.

^{b/}GCCA means subject to the basic government corporate control laws as prescribed under 31 USC 9101-9109.

^{c/}The enabling legislation specifies that the provisions of the GCCA shall apply.

Corporate Operating Characteristics Specified in Enabling Legislation and in the Basic Corporate Control Laws
(Continued)

	Management and Operation				Accountability						
	Structure	Purpose / Policy	Personnel	Procurement	Audit			Budget Controls	Treasury Financial Controls	Specified Termination	Reporting Requirements
					GAO	CPA	Other				
Predominately Federal											
<u>National Homeownership Foundation</u> P.L. 90-446, Housing and Urban Development Act of 1968, as amended	yes	yes	yes	yes	yes	no	no	no	no	no	yes
<u>Neighborhood Reinvestment Corporation</u> P.L. 95-557, Housing and Community Development Amendments of 1973	yes	yes	yes	yes	yes	yes	no	yes	no	no	yes
<u>New Community Development Corporation</u> P.L. 91-609, Housing and Urban Development Act of 1970	yes	no	no	no	no	no	no	no	no	no	no
<u>Overseas Private Investment Corporation</u> P.L. 87-195, Act for International Development of 1961, as amended	yes	yes	yes	yes	GCCA	no	yes	GCCA	GCCA	no	yes
<u>Pennsylvania Avenue Development Corporation</u> P.L. 92-578, Pennsylvania Avenue Development Corporation Act of 1972, as amended	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	yes
<u>Pension Benefit Guaranty Corporation</u> P.L. 93-406, Employee Retirement Income Security Act of 1974, as amended	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	yes
<u>Saint Lawrence Seaway Development Corporation</u> P.L. 83-358, Act of May 13, 1945, as amended	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	yes
<u>Solar Energy and Energy Conservation Bank</u> P.L. 96-294, Energy Security Act	yes	yes	yes	no	yes	no	no	no	no	yes	yes
<u>U.S. Railway Association</u> P.L. 93-236, Regional Rail Reorganization Act of 1973, as amended	yes	yes	yes	yes	GCCA	no	no	yes	GCCA	no	yes

Corporate Operating Characteristics Specified in Enabling Legislation and in the Basic Corporate Control Laws
(Continued)

	Management and Operation				Accountability						
	Structure	Purpose / Policy	Personnel	Procurement	Audit			Budget Controls	Treasury Financial Controls	Specified Termination	Reporting Requirements
					GAO	CPA	Other				
Predominately Federal											
<u>U.S. Synthetic Fuels Corporation</u> P.L. 96-294, Energy Security Act	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Mixed Federal-Private											
<u>Consolidated Rail Corporation</u> P.L. 93-236, Regional Rail Reorganization Act of 1973, as amended	yes	yes	yes	no	yes	no	yes	no	no	no	yes
<u>Federal Deposit Insurance Corporation</u> P.L. 81-797, Federal Deposit Insurance Corporation Act	yes	yes	yes	yes	GCCA	no	no	no	GCCA	no	yes
<u>Federal Savings and Loan Insurance Corporation</u> P.L. 73-479, National Housing Act	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	no
<u>National Credit Union Administration Central Liquidity Facility</u> P.L. 73-467, Federal Credit Union Act, as amended	yes	yes	yes	yes	GCCA	no	no	no	GCCA	no	yes
<u>National Railroad Passenger Corporation (Amtrak)</u> P.L. 91-518, Rail Passenger Service Act of 1970, as amended	yes	yes	yes	yes	a/	yes	no	no	GCCA	no	yes
<u>Northeast Commuter Services Corporation</u> P.L. 91-518, Rail Passenger Service Act of 1970, as added by P.L. 97-35	yes	yes	no	yes	no	no	no	no	no	no	no
<u>Rural Telephone Bank</u> P.L. 74-605, Rural Electrification Act of 1936, as amended	yes	yes	yes	yes	GCCA	no	no	GCCA	GCCA	no	yes
<u>Securities Investor Protection Corporation</u> P.L. 91-598, Securities Investor Protection Act of 1970, as amended	yes	no	yes	yes	no	yes	yes	no	no	no	yes

a/ Amtrak is exempted from the GCCA's audit provisions and made subject to GAO performance audit under 45 USC 747.

Corporate Operating Characteristics Specified in Enabling Legislation and in the Basic Corporate Control Laws
(Continued)

	Management and Operation				Accountability						
	Structure	Purpose/ Policy	Personnall	Procurement	Audit			Treasury			
					GAO	CPA	Other	Budget Controls	Financial Controls	Specified Termination	Reporting Requirements
Mixed Federal-Private											
Tennessee Valley Authority											
P.L. 73-14, Tennessee Valley Authority Act of 1933, as amended	yes	yes	yes	yes	GCCA	yes	no	GCCA	GCCA	no	yes
U.S. Postal Service											
P.L. 91-375, Postal Reorganization Act, as amended	yes	yes	yes	yes	yes	yes	no	yes	yes	no	yes
Predominately Private											
Banks for Cooperatives											
P.L. 92-181, Farm Credit Act of 1971, as amended	yes	yes	yes	yes	GCCA	no	yes	no	GCCA	no	no
Central Bank for Cooperatives											
P.L. 92-181, Farm Credit Act of 1971, as amended	yes	yes	yes	yes	GCCA	no	yes	no	GCCA	no	no
Communications Satellite Corporation											
P.L. 87-624, Communications Satellite Act of 1962, as amended	yes	yes	yes	yes	no	no	no	no	no	no	yes
Federal Home Loan Banks											
P.L. 72-304, Federal Home Loan Bank Act of 1932, as amended	yes	no	yes	yes	GCCA	no	no	no	GCCA	no	no
Federal Home Loan Mortgage Corporation											
P.L. 91-351, Title III, Federal Home Loan Mortgage Corporation Act	yes	no	yes	yes	yes	no	no	no	yes	no	no
Federal Intermediate Credit Banks											
P.L. 92-181, Farm Credit Act of 1971, as amended	yes	yes	yes	yes	GCCA	no	yes	no	GCCA	no	no
Federal Land Bank Associations											
P.L. 92-181, Farm Credit Act of 1971, as amended	yes	yes	yes	yes	no	no	yes	no	no	no	no
Federal Land Banks											
P.L. 92-191, Farm Credit Act of 1971, as amended	yes	yes	yes	yes	GCCA	no	yes	no	GCCA	no	no

Corporate Operating Characteristics Specified in Enabling Legislation and in the Basic Corporate Control Laws
(Continued)

	Management and Operation				Accountability				
	Structure	Purpose/ Policy	Personnel	Procurement	Audit		Budget Controls	Treasury Financial Controls	Specified Termination Requirements
					GAO	CPA Other			
Predominately Private									
<i>Federal National Mortgage Association</i> P.L. 73-479, National Housing Act, as amended by P.L. 83-560 and P.L. 90-448	yes	yes	yes	yes	no	no	yes	yes	no
<i>Federal Reserve Banks</i> P.L. 63-43, Federal Reserve Act	yes	no	yes	yes	a/	no	no	no	no
<i>Gallaudet College</i> Act of February 16, 1867, as amended by P.L. 83-420, as amended	yes	yes	yes	yes	yes	no	no	no	no
<i>Gorges Memorial Institute of Tropical and Preventive Medicine, Inc.</i> P.L. 70-350, Act of May 7, 1928, as amended	yes	no	no	no	yes	no	no	no	yes
<i>Howard University</i> Act of March 2, 1867, as amended	yes	yes	yes	yes	no	no	no	no	no
<i>National Consumer Cooperative Bank</i> P.L. 95-351, National Consumer Cooperative Bank Act, as amended	yes	yes	yes	yes	yes	no	yes	no	yes
<i>National Corporation for Housing Partnerships</i> P.L. 90-448, Housing and Urban Development Act of 1968, as amended	yes	yes	no	yes	no	yes	no	no	yes
<i>National Park Foundation</i> P.L. 90-209, Act of December 18, 1967	yes	yes	no	yes	no	no	no	no	yes
<i>Production Credit Association</i> P.L. 92-181, Farm Credit Act of 1971, as amended	yes	yes	yes	yes	no	no	yes	no	no
<i>Student Loan Marketing Association</i> P.L. 89-329, Higher Education Act of 1965, as amended	yes	yes	yes	yes	no	yes	no	yes	yes

^{a/}GAO's audit responsibilities are prescribed in the Accounting and Auditing Act of 1950, as amended



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 6 1982

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

This responds to your request for comments on the draft report "Congress should consider Revising the Government Corporation Control Act." The draft report asks Congress to consider establishing uniform accountability standards for Government Corporations. The revised Act would include a definition of a corporation, classification criteria, and general accountability standards with regard to financial audit; program audit and oversight; on budget reporting of Federal funding, expenditures, and receipts; and financial controls.

We have reviewed the report and find it generally constructive and a contribution to the ongoing dialogue on creating and managing government corporations. We have focused on certain aspects of the study which we feel should be explained more fully by GAO before a submission is made to the Congress.

NAPA Study on Government Corporations

Although the report does not mention it, OMB financed a study on government corporations by the National Academy of Public Administration (NAPA) that was released in August of 1981. That report reviewed the evolution of government corporations and the administration and managerial problems associated with this organizational device. The NAPA panel sought a proper balance between the essential flexibilities needed by corporations to accomplish their mission and the measures to assure accountability. That report also recommended that the Government Corporation Control Act be revised to: (a) define the specific types of corporations covered by it, (b) provide for continuing review of government enterprises and corporations, and (c) enlarge the scope of the Act from corporations budgeting, auditing and debt management to a broad range of management standards for each type of enterprise or corporation.

Need and Rationale for Government Corporations

However, the GAO draft report and NAPA's study miss the fundamental issue that needs to be addressed--the rationale for the existence of Federal corporate entities in the first place. Congress established each corporation for specific reasons. Whether these specific reasons are still relevant needs to be addressed before attempting to establish uniform criteria. In fact, it may be

impossible to establish unifying criteria if each corporate entity has a unique statutory purpose and history which remain relevant today.

The effectiveness of government corporations should also be examined. In theory, any government program could be conducted within the Federal establishment and subject to the usual budget, accounting, and other regulatory constraints. We need to explore whether a corporation's independence and flexibility contributes to the achievement of its purposes. And if a corporation is not found to be effective, a more conventional structure should be substituted if indeed a structure is found to be needed at all.

Uniform Standards to Improve Accountability

The report proposed the creation of uniform standards to improve accountability. In the private sector, there are a great many differences in the structure of corporations, but they are under common legal and accounting standards for public reporting. The GAO draft appeals for creation of such a body of rules for Federal and quasi-Federal corporations. The report fails to cite any specific instances where such a lack of generic rules has in fact been damaging. Does GAO have any data that can show how much the apparent lack of accountability cost? Is there evidence of waste or fraud that would have been prevented by better accountability? The report does not offer any evidence to substantiate GAO concerns.

Also, when proposing uniform standards to the Congress, it should be remembered that government corporations are established with the intention of departing from the norm and variations in accountability are the logical result. We do not believe that they are accidents that occur for lack of a standard. Therefore, we are not confident that the existence of a standard would eliminate variances.

Classification of Government Corporations

We recognize that classification of federally chartered government corporations is made difficult by their diversity; conflicting usages of terms like "ownership" and "control" or "public" and "private"; gradual or abrupt changes in the nature of some corporations and the arbitrary or erroneous classification of others. The same corporation may be classified variously in the Budget of the United States Government, the Government Corporation Control Act, the Government Organization Manual, and the corporation's own publication, not to mention scholarly publications. However, if a classification is to be useful in determining the powers which should be granted to, and the responsibility and accountability which should be expected of, different kinds of statutorily chartered corporations, it should be

the product of evaluation and advice from OMB and GAO in consultation with relevant agencies and the Congress.

We do not feel that GAO's classification of government corporations using the criteria of management and source of funds is adequate. For example, it is difficult to see how such clearly Federal government operations as the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation and U.S. Postal Service can reasonably be classified as mixed Federal/private simply because their income comes mainly from user charges paid by the private sector.

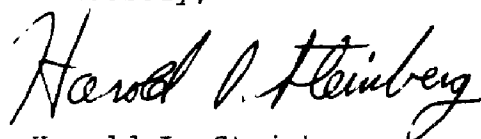
We have difficulty with the proposed requirement for classification of government corporations as other than "predominantly Federal" because of the controls proposed to follow such classification. The operations of the two "other" category corporations (Mixed-Federal/Private and Predominately Private) are substantially similiar to private sector corporations and they were created by the Congress to operate free from budgetary controls and to retain administative flexibility. This should include freedom from Federal controls at odds with the purpose of the corporation.

Off-Budget Entities

We recognize that the existence of off-budget transactions is a problem. To the extent possible, budget tables and summaries fully disclose the level of all government financial activities, including the activities of off-budget entities. The budget provides the detailed information for each of these entities, and prominently reflects the effect of these outlays in various tables in the budget document. However, the exclusion from budget totals is specified in law.

As you know, section 606 of the Congressional Budget Act provides that the House and Senate Budget Committees shall study on a continuing basis those provisions of law that exclude agencies or any of their activities from the budget and report their recommendations to their respective Houses. The House Committee completed such a study in 1976. It recommended that all off-budget entities, except the Federal Financing Bank, be returned to the budget. Since then, the Exchange Stabilization Fund and the Export-Import Bank have been returned. Legislation that would return all off-budget entities to on-budget status has been introduced on more than one occasion but has not been acted on by the Congress.

Sincerely,



Harold I. Steinberg
Associate Director for Management

GAO RESPONSENAPA STUDY ON
GOVERNMENT CORPORATIONS

We are aware of the National Academy of Public Administration (NAPA) study on Government corporations and OMB's sponsorship, and we considered it in our work. The NAPA study addressed the broad category of public enterprises including revolving funds and corporations. We do not feel the scope of the basic corporate control laws should be enlarged to include a broad range of enterprises and management standards for each type of enterprise or corporation. We feel that to do this would make the laws cumbersome and difficult to enforce.

NEED AND RATIONALE FOR
GOVERNMENT CORPORATIONS

While we agree that the rationale for the existence of Government corporations needs to be addressed, this was not the objective of our report. The need to establish corporations to accomplish policy or program objectives and the effectiveness of corporations in carrying out these objectives are matters for the Congress to consider.

We disagree that it "may be impossible to establish unifying criteria" for corporations with unique statutory purposes and histories. Corporate characteristics can be identified and defined. We reviewed a number of characteristics in developing our classification criteria. We chose not to use statutory purpose or history because these vary for each corporation. Instead we chose to use management and financing because these functions directly relate to accountability and because the degree of Federal involvement in these functions could be used to classify corporations into three broad categories: predominately Federal, mixed Federal/private, and predominately private.

UNIFORM STANDARDS TO
IMPROVE ACCOUNTABILITY

It was not the purpose of our report to identify waste or fraud by Government corporations. In fact, we state that we did not review the operations of individual corporations. Rather, we examined the laws' accountability provisions and coverage. We have this control legislation in effect--our concern is with the uniformity and consistency of its application.

CLASSIFICATION OF
GOVERNMENT CORPORATIONS

In establishing criteria for classifying Government corporations, we chose to use the degree of Federal involvement in management and financing because it relates directly to control. Where stock ownership was a factor, we considered it in the context

of financing. Operating procedures covering such functions as personnel systems, contracting authority, etc., are not always set forth in legislation and are not related to any legislated accountability standards. Therefore, we did not use them in establishing classification criteria. We developed our classifications for congressional consideration and based them upon those identified in 31 U.S.C. 9101-9109. We believe the degree of Federal involvement in management and financing provides the best classification criteria for applying accountability standards.

We did not attempt to identify corporate operations as "clearly Federal" or private because such terms are difficult to define. Basing our classification on the degree of Federal involvement in the management and financing of the corporations enabled us to draw conclusions on the degree of control that either was intended by the Congress when it enacted enabling and funding legislation or was indicated by the current involvement of the Federal Government in the management and financing of the corporations. Based on our criteria, the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, and U.S. Postal Service would be classified as mixed Federal/private corporations. We believe the controls proposed in our accountability model recognize an appropriate level of financial control for corporations earning their own revenues.

OFF-BUDGET ENTITIES

We recognize that exclusion of the financial activities of some Government corporations is specified in law. However, it is our position that excluding these corporations from the budget totals results in understating budget authority, receipts, and outlays. This results in an unclear picture of Federal spending, revenues, liability, and deficit.



FISCAL ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

AUG 2 1982

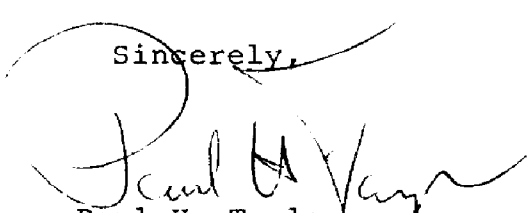
Dear Mr. Anderson:

Thank you for your letter of July 2, providing the opportunity to comment on a draft GAO report: "Congress Should Consider Revising The Government Corporation Control Act."

We concur with the premise of the report: that the Government Corporation Control Act requires updating to improve financial controls and to assist in the development of standards in this area. We equally agree that more consistent definitions and classifications of Government corporations would eliminate some of the confusion as to inclusion of outlays in budget totals, and that compulsory audits would improve the quality of figures that Government corporations report to the Department.

Enclosed for your consideration is a list of suggested revisions to the "Financing" column of Appendix I of the report. We have no further comments at this time.

Sincerely,


Paul H. Taylor

Mr. William J. Anderson
Director, General Government
Division
General Accounting Office
Washington, D.C. 20548

Suggested Revisions to Appendix I
(GAO Draft PAD-82-13)

Page I-5 Federal Financing Bank

Borrowing authority is unlimited, not \$5 billion.

Page I-7 Overseas Private Investment Corp.

Add: \$100 million borrowing authority from the Treasury.

Page I-7 St. Lawrence Seaway

Delete: May issue revenue bonds

Add: May issue revenue bonds to Treasury up
to \$140 million

Page I-8 U. S. Synthetic Fuels Corp.

Delete: \$20 billion line of credit from Treasury

Add: \$20 billion borrowing from Appropriated
Funds from the Treasury

AN EQUAL OPPORTUNITY EMPLOYER

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

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS