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**Revolving Funds
Office of the Inspector General
White Paper**

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Background

The Public Printer requested that the Office of the Inspector General provide information as to what is a Revolving Fund and how are they used in other agencies.

The following discussion of Revolving Funds has been extracted from a variety of General Accounting Office reports, private sector white papers, the GAO Manual of Appropriations Law-Volume IV, and interviews with GAO Issue Area Managers as well as Executive Branch personnel involved with revolving fund management.

Executive Summary

There are literally hundreds of funds across the Legislative and Executive Branches created for a variety of programs: Public enterprise funds supporting direct loans and loan guarantees; Intragovernmental funds such as the available to the General Services Administration to support the General Supply, Federal Buildings, and Information Technology programs; Working capital funds to support interdepartmental servicing such as the National Finance Center pay and leave processing services. There are even funds that are parochial, such as the U.S. Senate Stationery Room Fund and the U.S. Senate Gift Shop Revolving Fund.

Definition

The term “revolving fund” may be defined as a fund established by the Congress to finance a cycle of operations through amounts received by the fund. As this definition implies, the concept of a revolving fund is to permit the financing of some entity or activity on what is regarded as more a business-like basis versus an appropriation supporting the salaries and expenses of an agency program.

A GAO 1977 report explained this as follows:

“In concept, expenditures from the revolving fund generate receipts which, in turn, are earmarked for new expenditures, thereby making the Government activity a self-sustaining enterprise. The concept is aimed at selected Government programs in which a regular buyer/seller relationship exists to foster an awareness of receipts versus outlays through business-like programming, planning, and budgeting. Such a market atmosphere is intended to create incentives for customers and managers of revolving funds to protect their self-interests through cost control and economic restraint, similar to those that exist in the private business sector.” GAO/PAD-77-25 at 2.

Appropriation Technique

By authorizing the agency to retain the receipts and deposit them back into the fund, a revolving fund provides the authority necessary to avoid the miscellaneous receipts requirements of 31 U.S.C. sect. 3302(b). Thus, a revolving fund amounts to “*a permanent authorization for a program to be financed, in whole or in part, through the use of its collections to finance future operations.*” GAO/PAD-77-25 at 47.

Since it involves only one “pocket” a revolving fund provides a simpler funding structure. A revolving fund presents a clearer picture of an activity’s profit or loss. Also, reflecting expenditures in budget totals on a net basis, as is done with revolving funds, helps reduce budget distortion. Most important from the perspective of the spending agency is the increased flexibility under revolving fund since the agency does not have to ask Congress for the money. For these reasons, particularly the last, most executive agencies naturally and understandably will take all the revolving funds they can get.

Categories

There are three broad categories of revolving funds: public enterprise, intragovernmental, (GPO’s funds), and trust. Since they are all revolving funds, they share the common elements of revolving funds; they are created by act of Congress, they operate as combined receipt and expenditure accounts, and they authorize use of the receipts without further congressional action.

Public Enterprise Funds

A public enterprise revolving fund is a revolving fund that derives most of its receipts from sources outside of the federal government. It usually involves (1) a business-type operation, (2) that generates receipts, (3) used to finance a continuing cycle of operations. Although not a legal requirement, the fund should be self-sustaining (or nearly so).

Most government corporations are financed by public enterprise revolving funds. They are also commonly used for credit programs (direct loans, loan guarantee) of agencies such as the Department of Housing and Urban Development and the Small Business Administration. Although not necessary, the governing legislation sometimes explicitly designates the fund as a “public enterprise” fund. An example is 31 U.S.C. sect. 5136, of the United States Mint Public Enterprise Fund cited below.

“There shall be established in the Treasury of the United States, a United States Mint Public Enterprise Fund (the "Fund") for fiscal year 1996 and hereafter: Provided, That all receipts from Mint operations and programs, including the production and sale of numismatic items, the production and sale of circulating coinage, the protection of Government assets, and gifts and bequests of property, real or personal shall be deposited into the Fund and shall be available without fiscal year limitations...”

Intra-governmental Funds

An intragovernmental revolving fund is, as the name implies, a revolving fund whose receipts come primarily from other government accounts. It is designed to carry out a cycle of business-type operations with other federal agencies or separately funded components of the same agency. Examples of funds designated to finance dealings with other agencies are the GPO revolving fund, the General Services Administration's General Supply Fund, and the Federal Buildings and Information Technology Funds.

Trust Funds

A trust revolving fund is similar to the other types- a fund permanently established to finance a continuing cycle of business-type operations- except that it is used for specific purposes or programs in accordance with a trust agreement or statute under which the government has essentially a fiduciary relationship with respect to amounts credited to the fund. An example is the Federal Deposit Insurance Corporation's Bank Insurance Fund (12 U.S.C. sect. 1821), into which are deposited assessments collected from member banks.

Mandates for Revolving Funds

There are no rules of law that either mandate or prohibit the creation of revolving funds in particular contexts. Accordingly, whether to create a revolving fund or not is a policy matter for Congress to decide. However, the GAO Report entitled "PAD 77-25", has suggested that the normal budget and appropriation process is the best means for effective congressional control, and that when Congress creates a revolving fund it should be aware that it is yielding a portion of this control to the agency.

There are literally hundreds of funds across the Legislative and Executive Branches created for a variety of programs: public enterprise funds supporting direct loans and loan guarantees; intergovernmental funds such as are available to the General Services Administration to support the General Supply, Federal Buildings, and Information Technology programs; working capital funds to support interdepartmental servicing such as the National Finance Center pay and leave processing services.

Use of the Fund

While the statute (in our case 44 U.S.C, sect. 309) is the first and most important source of determining purpose and availability of the fund, it cannot be expected to spell out every detail. If the statute does not directly address the expenditure in question, one way or the other, the next step is to apply the "necessary expense" rule the same as with a direct appropriation, e.g., 63 Comp. Gen. 110,112 (1983); B-230304, March 18, 1988; B-216943, March 21, 1885.

This means that a revolving fund is available for expenditures that are directly related to and materially contribute to accomplishing an authorized purpose of the fund and that are not otherwise specifically provided for or prohibited.

Conclusion

Should management desire to propose a change in the statutory language of the fund for greater availability in its use, the Inspector General’s Office has found that there is legislative precedence for proposing such a change in the authorization language. One revolving fund in which the purpose statement is general is the Bureau of Engraving and Printing (B.E.P.) Fund, 31 U.S.C. sect. 5142. The B.E.P. Fund is available “to operate the Bureau of Engraving and Printing”(31 U.S.C. sect 5142(a)(1) or, in the original language, “for financing all cost and expenses of operating and maintaining the Bureau”(64 Stat 409). Under this language the Fund has been held available for various alterations and improvements to the Bureau’s real property (replacements and additions of elevators, air conditioning, electrical, partitions flooring etc.), as these are clearly necessary costs of operating and maintaining the Bureau.

Contributors

Kevin Kaporch, Chief, Inspections and Evaluations Unit, extracted the content of this report from a variety of General Accounting Office reports, private sector white papers, the GAO Manual of Appropriations Law-Volume IV, and interviews with GAO Issue Area Managers as well as Executive Branch personnel involved in revolving fund management.

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