



Highlights of [GAO-03-1069](#), a report to the Committee on Government Reform, House of Representatives

Why GAO Did This Study

Congress is considering the reauthorization of the six franchise fund pilots authorized by the Government Reform Act of 1994. These self-supporting business-like entities were established to provide common administrative services on a fully reimbursable basis. The authorization for most of the pilots will expire at the end of fiscal year 2003. In addition to the suggestion of giving the pilots permanent authorization, there has been some discussion in recent years of expanding the franchise fund concept so that all departments and independent agencies can set up a franchise fund. To provide the context to evaluate franchise fund pilots and fully understand reauthorization issues, GAO agreed to identify the many funds, called intragovernmental revolving funds, that operate with purposes similar to that of franchise funds and to analyze their legal authorities to determine if franchise funds were somehow unique. In addition, we examined the operations and managerial cost accounting processes of the franchise fund pilots at the Departments of the Interior and Commerce. We determined if they had taken into account the criteria suggested by the Office of Management and Budget (OMB), including: (1) adhering to OMB/Chief Financial Officers (CFO) Council's 12 business operating principles, (2) accounting for full cost, and (3) conducting audits of financial statements at the fund level.

www.gao.gov/cgi-bin/getrpt?GAO-03-1069.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

BUDGET ISSUES

Franchise Fund Pilot Review

What GAO Found

The six franchise fund pilots are part of a group of 34 intragovernmental revolving (IR) funds that were created to provide the common support services required by many federal agencies. In general, the legal authorities for these 34 funds are very similar. Twelve of the 34 funds—including 5 of the franchise fund pilots—have explicit authority to charge for an operating reserve and/or to retain a reserve for acquisition of capital equipment and financial management improvements.

The franchise fund pilots at the Departments of Interior and Commerce have both (1) taken into account many of the 12 business operating principles, (2) designed their cost accounting processes to set fees to recover the full cost of operations, and (3) progressed toward implementing the main cost accounting standards. The Interior Franchise Fund's (IFF) major business line, GovWorks, provides acquisition services and has seen dramatic growth in revenue and workload since fiscal year 1997. GovWorks expects continuing growth through fiscal year 2007. The IFF has been subject to an audit of its financial statements at the franchise fund level through fiscal year 2002. The Commerce Franchise Fund's (CFF) only business line, Office of Computer Services (OCS), provides information technology infrastructure support services and has had a declining revenue and customer base. However, OCS expects its revenues to remain stable through fiscal year 2005. The CFF was subject to financial audits at the franchise fund level for fiscal years 1997 and 1998, and at the department level for fiscal years 2001 and 2002. No audits were conducted for fiscal years 1999 or 2000.

Longer-term reauthorization (more than 1 or 2 years) would be helpful to the operation of franchise fund pilots, but neither their legal authority nor their operation makes franchise funds unique compared to other IR funds. A primary attraction to the franchise fund label is the explicit ability to retain reserves, and Congress could, and has, given this authority to other IR funds. The explicit authority provisions granted to franchise fund pilots (and a few other IR funds) could be considered case-by-case for individual IR funds. In deciding whether to provide these authorities to any individual fund, Congress could use the same criteria suggested by OMB for franchise fund pilots, including: (1) examining operations against OMB/CFO's 12 business operating principles, (2) determining if managerial cost accounting processes are in place to account for the full unit costs of outputs produced, and (3) considering if annual or periodic independent audits are being conducted at the fund level to ensure the reliability of the fund's financial information. Individual case-by-case authority would also permit Congress to consider and evaluate the agency's commitment and the strength of the IR fund's leadership, which are additional factors that can influence the success of the fund.