

VA REVOLVING FUNDS: ARE VETERANS BEING SHORTCHANGED?

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U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:50 p.m., in room 360, Cannon House Office Building, Hon. Jen Kiggans [chairwoman of the subcommittee] presiding.

Present: Representatives Kiggans, Rosendale, Mrvan, and Pappas.

OPENING STATEMENT OF JENNIFER A. KIGGANS, CHAIRWOMAN

Ms. KIGGANS. Good afternoon. The subcommittee will come to order.

Thank you all for being here today for this oversight hearing on revolving funds of the Department of Veteran Affairs. A revolving fund is essentially a business run by a Federal agency under authority granted by Congress. The revolving fund contains enterprises that provide services and collect fees. Instead of the typical model where Congress provides appropriations to pay Federal employees to perform tasks, the revolving fund is supposed to be self-supporting. A fund can recoup its costs and even make a profit, which goes into its reserves. That is supposed to be competitive and economical, but in practice it tends to be less transparent.

VA has two large revolving funds, the Franchise Fund and the Supply Fund, and many other smaller funds. The enterprises in the Franchise Fund provide accounting, payments, debt collection, human resources, IT, law enforcement training, and other services. The enterprises in the Supply Fund are distribution centers and contracting offices that sell products like hearing aids, medical equipment, and burial flags, and put in place contracts other offices can order against.

The revolving funds are big business for VA, and they seem to be steadily expanding. Each fund took in revenue of about \$1.8 billion last year, but they do not disclose key information. VA publishes the Franchise Fund's annual report, but the Supply Fund's financial statements are not public. These documents do not include basic facts like how much individual enterprises made or lost, or how much a fund drew from its reserves. The committee discovered the Supply Fund ran a \$37 million loss last year, but the fi-

nancial statements characterized it as a profit. I hope you can see why I am concerned. This is not transparency.

It has also been a struggle to get information on VA's agreement with the Department of Homeland Security or U.S. Immigration and Customs Enforcement (ICE) to process payments to local healthcare providers who treat detained illegal immigrants. After several months of Chairman Bost asking questions, VA did provide the agreement last week. Now that we have been able to read it, several things have become clear.

The VA has been processing the medical claims for illegal immigrants for ICE since 2002. ICE pays VA for the healthcare claims, as well as fees to cover VA's administrative costs and a profit. The agreement actually covers a half-dozen different services related to processing the claims. VA collected at least \$124 million from ICE in 2023 through their agreement, and the VA officials who run the Franchise Fund consider these profits very important.

These revolving funds have been steadily adding and expanding business lines over the years, growing their revenues and their payrolls. There is clearly an incentive to grow the funds, but they do not always turn a profit. We discovered that several enterprises within the Franchise Fund have suffered losses in recent years and the Supply Fund as a whole took a loss last year. The Canteen Fund had to be bailed out for \$140 million during the pandemic. Congress would not know any of that if not for this hearing.

Revolving funds may be an effective way to provide services, but they also seem to be a blind spot. Like any other business, they can be mismanaged or suffer downturns. We always need to know how they are performing. We need to ensure that VA is not creating new enterprises for the sake of empire building, but signing these agreements carefully. I appreciate our witnesses joining us today to answer these important questions.

With that, I now recognize Ranking Member Mrvan for his opening comments.

OPENING STATEMENT OF FRANK J. MRVAN, RANKING MEMBER

Mr. MRVAN. Thank you, Chair Kiggans. I appreciate the opportunity to learn more about VA revolving funds today.

Revolving funds are not unique to VA. They are used across Federal agencies. Congress authorized revolving funds to help the government run more efficiently. I want to go ahead and answer the question this committee hearing title—this hearing title poses: Are veterans being shortchanged by VA revolving funds?

From my read of the testimony and other materials my staff compiled ahead of this hearing, no, veterans are not being shortchanged. In fact, veterans are benefiting from the VA revolving funds program. As we will hear today, the use of the VA revolving funds results in government efficiencies and cost savings that allow VA to focus on what it does best, care for veterans. VA is able to reinvest the profits from its revolving funds directly into technology advances, benefiting VA and the veterans it serves.

VA revolving funds are subject to significant oversight. The Revolving Funds Board of Directors provides strategic leadership and ensures accountability and transparency for this program. Annual

independent audits are performed on the funds and VA has received 16 consecutive clean audits for Supply Fund and 26 for Franchise Fund.

The Antideficiency Act (ADA) also mandates that the fund does not incur costs or make payments that exceed the amounts available in the funds. These guardrails help ensure the revolving funds operate in the way Congress intended. I was impressed to hear about the wide range of goods and services the revolving fund provides through the Supply and Franchise Funds, all while being fiscally responsible.

VA's enterprise centers, operated through the Franchise Fund, provided administrative services in the areas of IT, financial management, personal security, and law enforcement and human resources. These programs boost productivity and minimize cost. This is a prime example of good governance.

I want to address recent claims made in the media in regard to VA's revolving funds. VA and the Department of Homeland Security have had a fee-for-service partnership authorized through the VA Franchise Fund for nearly two decades, specifically between ICE Health Services Corps (IHSC) and VA's Financial Service Center. Since 2002, IHSC and Financial Services Center (FSC) have operated independently with appropriate congressional oversight under multiple Republican and Democratic administrations alike.

VA has repeatedly informed the public and Congress that it does not provide or fund healthcare services for ICE detainees. ICE is solely responsible for determining a patient's eligibility for care, helping them access care in private sector, and transmitting bills for processing to FSC. In this relationship, VA is solely responsible for administrative tasks which are reimbursed by IHSC.

The argument that this takes away key manpower from processing veterans claims is blatantly false and intended to incite outrage against VA and migrant communities. In fact, if the VA were to end this partnership and work, it would likely result in enormous cost and administrative burden to the Federal Government as they would have to contract with a private company to process these bills. The only way veterans could be shortchanged here is if my colleagues push to remove this successful and efficient revenue building program at VA.

Instead of politicizing the facts of a successful VA operation, we should focus on the real positive outcomes of VA revolving funds. I hope my colleagues across the aisle also look at this hearing as an opportunity to learn more about a program in government that is working well.

With that, I yield back.

Ms. KIGGANS. Thank you, Ranking Member Mrvan.

We will now turn to witness testimony. Testifying before us today on our first panel, we have Ms. Terry Riffel, deputy assistant secretary for Financial Management Business Transformation at the Department of Veteran affairs. She is accompanied by Mr. Leroy Larkins, executive director of the VA Office of Revolving Funds; Mr. Phillip Christy, the deputy executive director of the VA Office of Acquisition, Logistics, and Construction. Finally, we have Ms. Julie Matta, deputy general counsel at the Government Accountability Office (GAO).

Thank you and welcome. Will the witnesses please stand and raise your right hand?

[Witnesses sworn.]

Ms. KIGGANS. Thank you. You may be seated. Let the record reflect that the witnesses answered in the affirmative.

Ms. Riffel, you are now recognized for 5 minutes to provide your testimony.

STATEMENT OF TERESA RIFFEL

Ms. RIFFEL. Good afternoon, Chairwoman Kiggans, Ranking Member Mrvan, and members of the subcommittee. Thank you for the opportunity to testify today on the Department of Veterans Affairs VA revolving funds and how these funds support VA's mission to care for veterans, their families, caregivers, and survivors. I am accompanied by Leroy Larkins, executive director for revolving funds, and Philip Christy, deputy executive director for acquisitions, logistics, and construction.

The VA revolving funds, consisting of the Supply Fund and Franchise Fund, provide high-quality, cost-effective support services by streamlining processes, optimizing the value of common administrative services to VA administrations and staff offices, as well as other government agencies (OGA). Shared service offerings allow VA revolving fund customers to focus on performing their mission-critical functions of providing high-quality care, benefits, and services to veterans and eligible family members.

Better support to VA employees for common administrative services means better service for veterans, their families, caregivers, and survivors. VA is proud to serve as a Federal shared service provider.

I would like to highlight a few examples where the Supply Fund and Franchise Fund have successfully improved services to VA, enhancing support to our veterans. The Financial Services Center, the FSC, has consolidated 78 field payroll offices to the FSC. As a result, Veterans Health Administration (VHA) and Veterans Benefits Administration (VBA) can redirect resources to focus on their core mission of caring for veterans and family members.

Additionally, the FSC reduced the backlog of veteran noncommunity care network medical claims by 99 percent and achieved a 92 percent auto-adjudication rate for dialysis medical claims with an average of 1.6 processing days. These efforts resulted in significant improvement in VA provider relations, directly supporting veterans' ability to receive medical care.

The Supply Fund Board organizations, which provide strategic contracting, have delivered over 3 billion in cost avoidance since 2020 due to robust category management principles and board-approved business plans.

Oversight for the VA revolving funds is conducted through the Revolving Fund Board of Directors, which functions as the principal governance body overseeing the Supply Fund and Franchise Fund's strategic priorities, goals, and objectives. It also provides strategic leadership for the Supply and Franchise Funds' operations, execution, and management of overall risk and challenges. The Revolving Fund Board of Directors is co-chaired by the deputy chief financial officer and deputy chief acquisition officer of the De-

partment, with board members consisting of six other senior leaders from VA administrations and staff offices whose participation on the Revolving Fund Board of Directors ensures revolving fund resources strategically serve VA's mission.

To emphasize transparency and accountability for a \$2.2 billion budget, each Franchise Fund Enterprise Center and Supply Fund Acquisition Center is required to complete a 2-year business plan on an annual basis. The Revolving Fund Board of Directors reviews and approves each business plan, which details specific revenue and expense projections, full-time equivalent staffing levels, and contract support requirements prior to funds execution. Information from the approved business plans is utilized to develop budget summary data and is included in part 5 of the VA president's budget submission.

VA revolving fund financial statements are audited by a private sector public accounting firm annually to provide an independent assessment of each revolving fund's financial stewardship. As a result of sound financial management business practices, the Franchise Fund received 26 and Supply Fund 16 consecutive unmodified clean opinions.

In closing, the VA revolving funds provide shared services to meet customer service demands effectively and efficiently, providing significant benefit to VA administrations and staff offices as well as other government agencies. As the Government Accountability Office noted in a recent report, GAO 23-104624, on a similar function in another agency, given the fiscal pressures facing the Federal Government, consolidating and sharing services, such as payroll or information technology services, within and among agencies is one way agencies can operate more efficiently. Shared services may also allow agencies to benefit from economies of scale and take advantage of specialized expertise. VA's revolving funds adhere to this principle and are consistent with GAO's recommendation.

Madam Chairwoman and other members of the subcommittee, thank you again for the opportunity to discuss VA's revolving funds. This concludes my opening statement, and my colleagues and I are happy to respond to any questions you may have.

[THE PREPARED STATEMENT OF TERESA RIFFEL APPEARS IN THE APPENDIX]

Ms. KIGGANS. Thank you, Ms. Riffel.

Ms. Matta, you are now recognized for 5 minutes to provide your testimony.

STATEMENT OF JULIE MATTA

Ms. MATTA. Chairwoman Kiggans, Ranking Member Mrvan, and members of the committee, thank you for the opportunity to discuss some of the key features of revolving funds, including how they are established, revolving fund types, and the applicability of key appropriations law principles. I am pleased to be able to share some of GAO's expertise in appropriations law on this topic.

I would like to begin with the fundamental nature of a revolving fund as a form of appropriation. As the name suggests, a revolving fund is intended to finance a cycle of operations. To accomplish that purpose, revolving funds collect and retain receipts that are

then used to finance the fund's operations. Thus, revolving funds are exceptions to the miscellaneous receipts statute. This law requires an agency to deposit any funds it receives outside of congressional appropriations into the appropriate general fund of the U.S. Treasury, unless the agency is otherwise authorized to retain and use the funds. Revolving funds provide such an authorization.

The structure of a revolving fund is similar to that of a business. One of the advantages of this structure is that the fund may become self-sustaining through its cycle of operations. If that happens, the activities supported by the revolving fund may no longer need annual appropriations from Congress. This gives the agency more flexibility, but it may also reduce the routine congressional visibility into the fund's operations that the annual appropriations cycle provides.

The flexibility provided by a revolving fund is not unlimited. Importantly, the amounts in a revolving fund are appropriated, including both the initial infusion of working capital and the operating receipts generated by the fund itself. This has two significant consequences for the revolving fund.

First, revolving funds can only be created by Congress because only Congress can make an appropriation. Agencies have no authority to administratively create a revolving fund. Instead, an agency may only operate such a fund where Congress has provided specific statutory authority. That statutory authority will specify the receipts that may be deposited into the fund and the purposes for which those receipts may be used.

Second, the rules that guide the use of appropriations apply to revolving funds as well. We often think about appropriations law as having three fundamental characteristics: purpose, time, and amount. The purpose statute provides that appropriations can only be used for the purposes for which they were made. Revolving funds, then, may only be used for the purposes specified in the legislation authorizing the fund.

With respect to time, revolving funds have a special characteristic. One of the defining features of a revolving fund is that the receipts earned by the fund are available without fiscal year limitation. This means that the receipts can be used to purchase goods and services that the fund needs at any time. By contrast, most annual appropriations are available only for those goods and services an agency needs during a fixed period of time.

Finally, with respect to amount, perhaps the most important fiscal statute is the Antideficiency Act. This law prohibits agencies from spending more than is appropriated to them and from spending amounts before they receive them. As a result, a revolving fund may not spend more than the amount contained in the fund, and receipts cannot be spent until they are collected.

Revolving funds are also subject to other legal requirements that apply to appropriated amounts. For example, obligations made against any appropriation must be recorded. An obligation is a legal requirement to make a payment, and the recording statute requires agencies to document their obligations, keeping track of how much has already been spent. Importantly, only those obligations that meet certain statutory criteria can be recorded. These require-

ments ensure that the obligations incurred by a revolving fund are proper and within the fund's means.

Revolving funds strike a balance between agency flexibility and congressional control of the public purse. They provide a way to finance cyclical agency operations that may become self-sustaining while remaining subject to the restrictions that apply to all appropriated funds.

Chairwoman Kiggans, Ranking Member Mrvan, and members of the committee, this completes my prepared statement. I am pleased to respond to any questions that you may have. Thank you.

[THE PREPARED STATEMENT OF JULIE MATTA APPEARS IN THE APPENDIX]

Ms. KIGGANS. Thank you very much.

We will now move to questions, and I yield myself 5 minutes.

Ms. Matta, what benefit do revolving funds produce? Is the purpose to provide services in the most economical way possible or to turn a profit for the agency?

Ms. MATTA. GAO's longstanding case law, looking at revolving funds as a form of appropriation, talks about a couple flexibilities with revolving funds, primarily that they are no longer part of the annual appropriation cycle. They are a form of permanent appropriation, and typically, the amounts in the revolving fund are no year. They are provided to the agency without fiscal year limitations. That provides the agency a certain amount of flexibility. It is a loosening of the congressional purse strings, if you would.

We would, if GAO were looking at a particular revolving fund, look at the exact language of the statute. Revolving funds can differ and may give an agency more or less flexibility to retain a balance. Some revolving funds specify an amount that must be returned to the Treasury. GAO would look at the language of the statute because each revolving fund requires a specific authorization.

Ms. KIGGANS. Thank you.

Ms. Riffel, you explained in a briefing to staff that the profits generated by the Franchise Fund are very important to the VA. Where do the profits go and what would be the consequences of losing them?

Ms. RIFFEL. Yes, so they are very important. They go into retained earnings. In those retained earnings, we have operational reserves as well as capital reserves.

Operational reserves are there in case we were to lose a customer and we have to all of a sudden bear additional costs with no income, we would have that to fall back on. The capital reserve is also used to provide for technology enhancements or improvements. A customer may come to us with a new requirement. We would leverage our reserves to support quick delivery of that customer's requirements.

That is part, really, of the whole idea behind shared services, that an agency and/or a customer internal to VA may have a specific business need. They are not able to meet that business need. They can come to us. If it is a common administrative service that we offer, we would certainly do what we need to, to on demand meet that customer's need. Those reserves are critical for us to be able to do that.

If we were to lose this customer, or lose a customer in general, anytime a business loses a customer, then you obviously have less profit, less reserves, and you have to determine what you are going to do with the individuals that were performing that duty that is no longer there, which also becomes a burden to, in this case, a franchise organization.

Ms. KIGGANS. Thank you.

Ms. Matta, what happens when there is a shortfall in a revolving fund?

Ms. MATTA. The Antideficiency Act prohibits agencies from incurring expenses in excess of the amount in a fund. An agency is legally prohibited from incurring additional expenses if they do not have amounts to cover it.

Ms. KIGGANS. Thank you.

Mr. Larkins, how many times in the last 3 years has one of the funds or one of their enterprises produced a loss? How did you make up that shortfall?

Mr. LARKINS. Thank you for the question.

For the Supply Fund we have seen that in 2 years of the last 5 years, it was in 2020 and then 2023. We have seen that also in the Franchise Fund. We have only one instance, and that was back in 2022, for our law enforcement training center. Each time we are able to utilize the reserves to compensate for those particular losses.

Ms. KIGGANS. Thank you.

Mr. Larkins, how much money is in the fund's reserve, and how much has been drawn down over the last 3 years?

Mr. LARKINS. Okay. Thank you for that.

In the Franchise Fund, we have a total reserve of, I want to say, \$678 million, which consists of operating reserves of \$521 million and \$157 million in capital reserves. For the Supply Fund, we have a total of \$424 million in the reserve.

Ms. KIGGANS. Thank you.

Ms. Matta, the VA publishes the Franchise Fund financial statements, but the Supply Fund financial statements are not made public. Neither of them contain much information about the funds reserves or the profits or losses of enterprises within the funds. Does this lack of transparency present any risks?

Ms. MATTA. The Antideficiency Act and the recording statute both require agencies to keep track of receipts and the expenses on any form of appropriation, including a revolving fund. The VA should be able to provide this committee with those statements at the level of detail that you require for your oversight at any time.

Ms. KIGGANS. Thank you.

My time has expired. I will now yield 5 minutes to Ranking Member Mrvan.

Mr. MRVAN. Ms. Riffel, I want to give you the opportunity to set the record straight on the relationship between the VA and the Department of Homeland Security. Please share the facts that you think are relevant to dispel any of the misinformation in the media relating to this issue.

Ms. RIFFEL. I really appreciate the opportunity to respond to that question. I think there is been a lot of mischaracterization in the media around the Financial Services Center's relationship with Im-

migration and Customs Enforcement, particularly Health Services Corps. I want to make it really clear that there is no VA funds nor VA healthcare professionals that provide any services to those individuals that are in the custody of ICE. We have been doing this for over 20 years, and the relationship is solely to process medical claims. IHSC pre-funds or advance funds the VA or the Financial Services Center for that work. That is really how simple it is.

Mr. MRVAN. Okay. From a cost savings and economies of scale perspective, why does it make sense for the VA to process these bills?

Ms. RIFFEL. Yes. It is because the skill to process healthcare claims is actually fairly unique. The Financial Services Center does this service for Veterans Health Administration and also for this other government agency, IHSC.

I think part of the efficiency is that through economies of scale, we are able to actually spread the overhead that is necessary to be able to perform this service. It benefits VA because IHSC is actually absorbing some of that overhead in that product line overall, that medical claims processing product line.

I think it is a good example of shared services across government where you have more than one agency that is benefiting from a shared service offering that, in this case, the Financial Services Center, as part of VA, is able to deliver.

Mr. MRVAN. Okay, thank you.

Mr. Larkins, thank you for sharing the information about the VA revolving funds. This is certainly an interesting program and clearly a benefit to the VA, the Federal Government, and taxpayers. How have revolving funds been instrumental in enhancing operational efficiencies within government programs? What specific examples can you provide that highlight the benefits of utilizing revolving funds and promoting fiscal responsibility and sustainability resource management?

Mr. LARKINS. No, thank you for the opportunity to speak about the value of shared services, specifically the VA revolving funds.

When I think about the work that we do across the eight enterprise centers within the Franchise Fund, one item actually sticks out to me from the Internal Control Servicing Center, who provides reviews of state and Tribal government-operated veteran cemeteries. What we want to do is make sure that they are maintaining the standards that National Cemetery Administration (NCA) has been known for. They got a 97 score related to the American Customer Satisfaction Index. We want to make sure that we take that off their plate so they can concentrate on serving the VA cemeteries. At the same time, we want to make sure that these state cemeteries are up to standard. We do this.

I think that this is something that is personal to me because my father, who is a U.S. Army Vietnam veteran, actually has preselected a state cemetery for his final burial place for him and my mother. For me, I want to make sure that they are getting the standards that they are up to.

We talk about the duality of shared services, the efficiencies that are there, but we are actually taking care of the veteran as well.

When we think about on the Supply Fund side of the house, one of the programs that sticks out to me is the Warriors to Workforce

Program that is conducted from the VA Acquisitions Academy. The 7-month program actually trains service-disabled veterans and actually trains them to be contract specialists. Literally, we are using our resources to train veterans to improve their lives. Actually, this is a shared service training resource where we have trained 264 interns across the Federal Government, 44 actually are from other government agencies.

Mr. MRVAN. Quickly, we have got about 30 seconds. You had mentioned that there is \$678 million in that fund. Can you tell me, is that—those programs that you mentioned, that fund is utilized for that?

Mr. LARKINS. Yes, sir.

Mr. MRVAN. Okay. Thank you very much.

Mr. LARKINS. Thank you.

Mr. MRVAN. With that, I yield back. I am sorry.

Ms. KIGGANS. Thank you, Mr. Mrvan.

The chair now recognizes Mr. Rosendale for 5 minutes.

Mr. ROSENDALE. Thank you very much, Madam Chair. Appreciate it.

The U.S. Department of Veterans affairs has two major revolving funds, the Franchise Fund and the Supply Fund, that provide services to VA offices and other agencies on a fee-for-service basis. Both do not receive annual appropriations from Congress and instead operate like a business.

While I am glad these revolving funds do not add to our over \$34 trillion debt, the funding mechanism has largely prevented Congress from providing proper oversight. The lack of oversight has led to confusion about how the funds are used, and I am hopeful that this hearing today can clear that up.

Ms. Riffel, several processing functions have been improved by turning them over to FSC, as you talked about. Do not disagree with that. I do have some questions about some of those other practices that you all have taken on, whether it was by choice or not.

The U.S. Immigration and Customs Enforcement allocated \$75 million in fiscal year 2021 and \$124 million in fiscal year 2023 for illegal immigrants in ICE detention to receive healthcare services on the taxpayer's dime. This 65 percent increase is the direct result of Biden's refusal to secure the southern border.

Ms. Riffel, where do the dollars come from to pay the healthcare providers who treat the ICE detainees?

Ms. RIFFEL. Thanks for that question.

As I stated earlier, Immigration and Customs Enforcement, IHSC pre-funds for both the Full-time Equivalency (FTE) that are dedicated for that particular claims processing service, as well as for the disbursements to reimburse those providers that are doing that care.

Mr. ROSENDALE. This is coming directly from ICE's budget then?

Ms. RIFFEL. That is correct.

Mr. ROSENDALE. Okay. Ms. Riffel, who are the healthcare providers who treat the illegal immigrants detained by ICE?

Ms. RIFFEL. Yes. I would actually—so ICE has responsibility for that coordination of care for anybody in their custody. VA does not get involved with that. We are simply processing claims on behalf

of IHSC. We are not involved whatsoever in where or how those individuals in custody are receiving care.

Mr. ROSENDALE. I understand that the care is provided by non-VA providers.

Ms. RIFFEL. That is correct.

Mr. ROSENDALE. Okay. Is it possible that the same healthcare providers who are part of the VA's community care network could also be the same providers who treat the illegal immigrants that are detained by ICE?

Ms. RIFFEL. There is no analysis to indicate one way or the other on that. That is not part of any of the agreement that we have with IHSC in terms of asking for any of that information.

Mr. ROSENDALE. You are not privy to any of that information?

Ms. RIFFEL. We do not analyze—

Mr. ROSENDALE. I did not ask if you analyze it. You are privy to it. You have access to the information that shows the healthcare providers that they are utilizing because you are processing their collections and payments.

Ms. RIFFEL. We are processing payments to providers, yes.

Mr. ROSENDALE. Okay. Then you know who the providers are that they are using.

Ms. RIFFEL. Yes.

Mr. ROSENDALE. Okay. Again, the same healthcare providers who are part of the VA's community care network could also be the same providers who treat the illegal immigrants detained by ICE?

Ms. RIFFEL. Again, we have not done that analysis to confirm—

Mr. ROSENDALE. I did not ask you if you did the analysis. I said, could they be the same care providers?

Ms. RIFFEL. We would have to confirm that. I do not want to say yes or no.

Mr. ROSENDALE. Is it possible? Is it possible?

Ms. RIFFEL. I would like to take that for the record and answer it accurately.

Mr. ROSENDALE. You do not know if it is possible? If healthcare is being delivered in the same communities that we have, a veterans community, and you have access to the very—because of the fact you have to pay them, you cannot say whether that would even be possible?

Ms. RIFFEL. I would rather actually answer the question accurately.—

Mr. ROSENDALE. I mean, you are not looking good to the American people right now, okay, the way you are trying to evade this. It is a pretty simple question.

Ms. RIFFEL. Well, I appreciate your question. We have not completed that analysis.

Mr. ROSENDALE. You just will not answer. Okay. Okay.

This arrangement could result in illegal immigrants receiving treatment before veterans do. Quite frankly, to this committee, that is completely unacceptable.

Do you think it is fair?

Ms. RIFFEL. I am not aware of that.

Mr. ROSENDALE. Do you think it is fair if that is taking place, if we have illegal immigrants that are utilizing the same commu-

nity care providers that our veterans are supposed to be utilizing, and it is keeping our veterans from receiving their care, do you think that that is fair?

Ms. RIFFEL. That is an assertion.

Mr. ROSENDALE. Wow. Okay. What can you show me that proves they are not the same networks and that illegal immigrants are not being prioritized over veterans? Can you provide me that information?

Ms. RIFFEL. We can take that for the record if that is something that you would like to see.

Mr. ROSENDALE. I would like to see that. I would absolutely like to see that.

Madam Chair, I see I am 12 seconds over. I would yield back.

Ms. KIGGANS. Thank you, Mr. Rosendale.

The chair now recognizes Mr. Pappas for 5 minutes.

Mr. PAPPAS. Thanks very much, Madam Chair. I appreciate, members of the panel, for your comments here this morning.

I think it is critically important that, you know, the way that you have reinforced the argument about VA being laser-focused on its mission to deliver care and benefits to the veterans of this country, and we appreciate that. I think at a time where we are seeing a historic expansion of care and benefits through the The Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act, more than 5 million American veterans have been screened for toxic exposure, for instance. Veterans should have no question about the ability of VA to be there for them. I think any sort of political narrative that is ginned up to try to sow doubt among veterans is dangerous and is counter-productive to the work that is ongoing at VA.

I did appreciate the way that you highlighted the benefits of these programs. I learned a few things today. I did hear, Ms. Riffel, you talking about the Financial Services Center and the way that it has played a role in terms of paying claims through the Community Care Program. It is something that I have heard a lot about over the years in my district.

A lot of providers that are out there, a few years ago in particular, were dealing with a huge backlog of legacy claims. I am wondering if you could talk a little bit more about how you have worked with the provider community to make sure, ultimately, that the bill is paid and that these folks continue to be there to be able to provide care to our veterans.

Ms. RIFFEL. Yes, so thanks for that.

We have had a relationship with Veterans Health Administration for quite some time in terms of supporting their claims processing, particularly around the Camp Lejeune Family Member Program as well as the dialysis—contracted dialysis claims and then the Community Care non-network claims. We are not associated with the contract that they have right now, but the other ones. I would tell you that we were instrumental in helping them with their initial backlog that they had several years back that resulted in some concerns from the private sector community. We feel really honored to partner with them and to be able to really help those relations that they needed to ensure that veterans are getting the care they need to in the community.

We continue to this day to have that relationship with VHA and certainly would stand by to support any additional claims that they need us to do for them. Ninety-five percent of our medical claims processing that we do is in support of VHA. Only really 5 percent is OGA. Again, our big focus is for Veterans Health Administration.

Mr. PAPPAS. Well, we thank you for that. I have seen the benefit on the ground in my district in terms of the relationship between providers and VA and the way that they work for veterans.

I want to highlight another program and the way that it supports VA's work, and that is around VA's police force. I understand that the revolving funds program led to the creation of the Law Enforcement Training Center (LETC). It provides special training for police officers working in healthcare environments, which is a pretty specific environment, including law enforcement personnel working at VA healthcare facilities.

I am wondering maybe, Mr. Larkins, if you want to take this one, can you share how LETC trains VA police officers and fosters a safe environment for veterans seeking care at VA?

Mr. LARKINS. No, thank you for this opportunity.

It is some great work that is being done at the law enforcement training center. Specifically, they have a mandate to train our VA police officers, a very specialized training. We want to make sure that if a veteran's in crisis, an emergent situation happens, that we maintain respect for the veteran's rights and the things that they have earned over time. You know, things happen, but we want to make sure that we are able to de-escalate the situation quickly. Right? Get voluntary adherence to what the police officer is asking.

They have been carrying out this mission now since, I want to say, 2007, and they have been doing a great job for that—you know, for this timeframe.

Mr. PAPPAS. Well, thank you all for helping us to understand the bigger picture in terms of these revolving funds. We look forward to receiving more information, staying up to date, so that we can do our oversight work.

With that, I yield back my time.

Ms. KIGGANS. Thank you, Mr. Pappas.

We will now proceed to round 2 of questions, and I will yield 5 minutes to myself.

Ms. Riffel, the VA has described the ICE agreement as processing healthcare claims. However, based on the documents you provided last week, there is a lot more to it. Can you walk me through the full scope of these services?

Ms. RIFFEL. Yes, I would be happy to. There is some ancillary services that happen when you process medical claims. Like some mailroom stuff and some of the help desk activities in terms of answering inquiries and whatnot, we did not call those out directly initially, but they are called out in the agreement with ICE.

The other main service that is provided is purchase card services. You would see that on there as well.

Other than that, the other ancillary are really secondary to supporting the medical claims processing product line, which is the main product line that we have with them.

Ms. KIGGANS. Then, additionally, Ms. Riffel, according to the VA spokesman, not more than 10 VA staff perform this work for ICE.

Is this just counting the VA Federal employees or does that number also include contractors?

Ms. RIFFEL. No, Federal employees. Those are FTE.

Ms. KIGGANS. Okay, let us see. Also, did these positions exist in the VA prior to the ICE agreement, or were they created to work on the agreement?

Ms. RIFFEL. That is been, you know, 20-plus years ago. I think over the years, initially, when we first started, we had some contractors involved, but as we have gotten very specialized skill in that area, now we have switched over to FTE so that we can actually maintain some continuity and standards in that particular product line.

Ms. KIGGANS. Okay. Then, let us see, in 2021, the administration reassigned most of the Community Care claims processing from the FSC to the newly created Integrated Veterans Care Office. As the FSC processes more and more medical claims for ICE and fewer and fewer veteran Community Care claims, how is this ICE agreement benefiting veterans or the community care program? Ms. Riffel.

Ms. RIFFEL. Again, I want to just reiterate that 95 percent of our claims processing is for Veterans Health Administration. Only 5 percent is represented by OGA.

I think it really is shared services in general. Right? You have that opportunity to create efficiencies, economies of scale, by spreading your overhead amongst more than one customer. It benefits VA, as well as us maintaining the skill that we need to, to be able to perform that for any other agency, really, that might come to us and request that service.

Ms. KIGGANS. One last question. Committee staff asked the VA this question prior to the hearing, but we did not receive an answer. Do you know how many revolving funds there are in the VA at all levels?

Ms. RIFFEL. Yes, I will actually defer that to Mr. Larkins here.

Mr. LARKINS. Yes, we have more than a dozen VA revolving funds that are there, and we are working on now trying to compile the information, and we will get it to you soon.

Ms. KIGGANS. That would be great. Thank you.

I will yield to Mr. Mrvan for 5 minutes.

Mr. MRVAN. Thank you, Chairwoman.

Ms. Matta, are there best practices used in other Federal agencies the VA could adopt to increase transparency for the revolving funds to address some of the concerns we hear today?

Ms. MATTA. Ranking Member Mrvan, I can provide an answer for the record for you on that. Our experts back at GAO who do engagements looking at the operations of specific funds can work with your staff and give you some of that information.

Mr. MRVAN. Mr. Larkins, I was pleased to hear about the clean audit history of the VA Franchise Fund. Can you please describe how audits and general oversight of the fund is conducted?

Mr. LARKINS. No—oh, I am sorry.

Mr. MRVAN. What are the guardrails to ensure the fund remains fiscally responsible?

Mr. LARKINS. No, thank you for that.

We, each year, we have a public accounting firm come in to do an assessment of our financial statements, and they actually produce an audit report on our behalf, and they go through an exhaustive list of controls over a period of about 6 months, and they come to an opinion. Just as mentioned before, we have 26 consecutive clean opinions for the Franchise Funds, 16 for the Supply Fund.

In addition to that, we actually have other internal controls within VA to make sure that, again, we are not going to exhaust the revolving fund. One of the things that my colleague has helped stand up is the Integrated Financial and Acquisition Management Transformation (IFAM) system. There are controls within that system that are going to prevent us from, you know, overspending what is actually in the reserve.

There is many controls set up. There is actually monthly monitoring of budget execution to make sure that the plan that is been laid out, these 2-year business plans that we talked about before, are actually being executed properly.

There is many controls in place to make sure that we stay fiscally sound.

Mr. MRVAN. Thank you. With that, I yield back.

Ms. KIGGANS. Thank you, Mr. Mrvan.

The chair now recognizes Mr. Rosendale for 5 minutes.

Mr. ROSENDALE. Thank you very much, Madam Chair.

Mr. Larkins, as a former Montana insurance commissioner, I do understand the need and the purpose for having reserves available to you. I just did some quick math, and the organization, your organization has 2,500 employees, roughly. If we just average that you have \$100,000 a year salary across the board. I am sure some make more, some make less. That is about \$250 million a year of obligation, of true obligation that you have.

Let us throw some benefits in there, some bonus payments, whatever goes on, and round it up to \$300 million. If you have \$300 million of true obligation and you are sitting on a balance of your reserves is at 1.64 billion—wait a second, 1.2 billion, excuse me, 1.2 billion in accumulated reserves, that is four times the amount that is truly, totally obligated.

The balance of your \$164 billion that I am showing, \$164 billion is your cost going out, \$100.8 billion revenue coming in. Okay? This is your in and out numbers. That is truly an exercise of the books that you are handling for other people. If there is a change in that, there is going to be an equal change in the obligation that goes out.

Your true obligation is about 250-to \$300 million a year. Why I am asking is that at \$1.2 billion of accumulated reserves, you are talking about 4 years' worth of time. You would certainly be able to modify your business plan, your business model in a year's time, if there was that dramatic of a change. I just do not understand why this organization has a requirement for such a high reserve amount.

I am not sure who is best equipped to answer this question. This question is for whoever may be able to take it up. I want to ask you about another revolving fund. It is the Pershing Hall in Paris.

Pershing Hall was purchased and organized by a group of World War I veterans and American Legion members as a memorial and

gathering place. Since then, it has been turned over to the VA. It has become dilapidated and renovated several times, and most recently leased to a hotel and then to a shoe store. Today, VA collects the rent and is allowed to spend a portion of it on receptions.

According to the Legion members in Paris, it no longer serves any public purpose and its collection of historical artifacts has been scattered. Are you aware of the situation? Anybody? Do you think this revolving fund has mutated into a pure moneymaker and forgotten its original purpose?

Mr. LARKINS. Well, first off, I just want to, for the record, we can provide you some expenses that make up why we need the reserve that is been there. Typically, for our Franchise Fund, sir, we keep 1 to 3 months of operating reserve on task. Again, there is some other expenses there, like you said, outside of salaries. We are happy to provide, and take that for the record.

For the Supply Fund, there is about 6 months of operating reserves. Again, this is information that we can provide to you so that you can get a clearer picture.

Now, in relation to Pershing Hall, that is not something that is under our purview today, but we are happy to take this for the record so that we can address your concerns. You know, my main oversight is for the Franchise Fund and the Supply Fund, sir.

Mr. ROSENDALE. Wonderful. Will you commit with us today then, Mr. Larkins, that you will get that information and set something up with committee on Pershing Hall so we can find out exactly what is going on with that property?

Mr. LARKINS. We will take that for the record. Yes, sir.

Mr. ROSENDALE. Okay. Going back to the reserve funds, again, the reserve funds, I truly understand when there is a need for an obligation, but there is not going to be an obligation. If you have a 4-month operating cost, okay, there is not going to be that large of a true obligation because you either have a customer that is having you service their account, so you have revenue in and revenue going out. If that customer goes away, you are certainly not going to have the obligation for that bill to be paid because that customer is no longer going to be creating that obligation, so you will not have that revenue.

The true obligation and reserves that are necessary for the organization is the salary for the employees and to have 4 years of salary requirement in reserve, that is far too much money.

I yield back.

Mr. LARKINS. If I can address that just real quickly. We will, you know, again, we will get you this information. There are more expenses out there than just salary. We actually have buildings, you know, that we are renting, and there is other overhead that we can definitely be able to explain to you further. Thank you.

Ms. KIGGANS. Thank you, Mr. Rosendale.

I just have a few more questions, so I will yield a few minutes to myself.

Mr. Larkins, why does the VA publish the annual report for the Franchise Fund, but not for the Supply Fund?

Mr. LARKINS. No, thank you for that question.

This is actually one of the questions that I asked when I first took this job in 2019. The Franchise Fund is more of an enterprise

business entity, meaning we are actively selling services to not only VA, but to other government agencies. Okay.

The Supply Fund is strictly more so with services to VA. Right? Therefore, we do not necessarily put together a public facing document that is, you know, put out there for everyone to view, but we have access. We have this information, and anyone who desires it, we can give them access to that information.

Ms. KIGGANS. Thank you for that and also for Mr. Larkins. If the committee had not held this hearing, then how would we have found out about the Supply Fund loss?

Mr. LARKINS. That is a good question. We do put this information out there in the audit reports. I think this is a classic thing of, again, like, if you ask, we give you the information, but you are right, there is probably other areas where we could provide information on a regular basis if it is required.

Ms. KIGGANS. Ms. Matta, can you provide an example in which a revolving fund violated the Antideficiency Act?

Ms. MATTA. Yes. The Antideficiency Act requires agencies to have a system of funds control. In fiscal year 2023, the Department of Housing and Urban Development reported to us that they had counted the value of reimbursable agreements that they were anticipating getting and had obligated against those anticipated receipts before they received them. That violated the Antideficiency Act's prohibition against obligations before you receive the amounts. That violation is in GAO's compilation of ADA reports that we published in December.

Ms. KIGGANS. Great. Thank you.

Then, Ms. Riffel, when was the last time that a VA revolving fund violated the Antideficiency Act?

Ms. RIFFEL. Yes, I actually am not aware. I will defer to Mr. Larkins and see if he is aware.

Mr. LARKINS. From my aware, we have not had an Antideficiency Act within the VA revolving funds.

Ms. KIGGANS. Mr. Mrvan, you do not have any other questions?

Great. I think that is all we have for today, so thank you all for being here today and for answering all of our questions.

I ask unanimous consent that all members shall have 5 legislative days in which to revise and extend their remarks, and include any extraneous material. Hearing no objection, so ordered.

This hearing is now adjourned.

[Whereupon, at 3:42 p.m., the subcommittee was adjourned.]

A P P E N D I X

PREPARED STATEMENTS OF WITNESSES

Prepared Statement of Teresa Riffel

Good afternoon, Chairwoman Kiggans, Ranking Member Mrvan, and Members of the Subcommittee. Thank you for the opportunity to testify today on the Department of Veterans Affairs' (VA) Revolving Funds and how these funds support VA's mission to care for Veterans, their families, caregivers, and survivors. I am accompanied by Leroy Larkins, Executive Director for Revolving Funds and Phillip Christy, Deputy Executive Director for Acquisition, Logistics, and Construction.

VA Revolving Funds, consisting of the Supply Fund and Franchise Fund, provide high-quality, cost-effective support services by streamlining processes and optimizing the value of common administrative services to VA's Administrations and Staff Offices and other government agencies. Shared service offerings allow VA Revolving Funds customers to focus on performing their mission-critical functions of providing high-quality care, benefits, and services to Veterans and eligible family members. Better support to VA employees for common administrative services means better services for Veterans, their families, caregivers, and survivors. VA is proud to serve as a Federal shared service provider.

VA Revolving Funds History

VA's Supply Fund is authorized by 38 U.S.C. § 8121. In July 1953, President Dwight D. Eisenhower signed legislation authorizing a revolving supply fund to maintain and operate a supply system for VA, including procurement of goods and services, equipment, personal services, and the repair and reclamation of used, spent, or excess personal property. The Supply Fund is authorized to provide services on a reimbursable basis to VA and the Department of Defense. Additionally, the Supply Fund uses authorities under the Economy Act and Government Employees Training Act with other government agencies.

VA's Franchise Fund was established under the authority of the Government Management Reform Act of 1994 (P.L. 103-356), and the VA and Housing and Urban Development and Independent Agencies Appropriations Act of 1997. VA was selected by the Office of Management and Budget (OMB) in 1996 as one of six Executive branch agencies to establish a franchise fund pilot program. VA's Franchise Fund began providing common administrative support services to VA and other government agencies in 1997. In 2006, the Military Quality of Life and Veterans Affairs Appropriations Act, P.L. 109-114, made VA's Franchise Fund permanent.

Operations and Management of VA Revolving Funds

VA Supply Fund

The Supply Fund is a self-sustaining, revolving fund that supports the operation of a supply system at VA. As such, no Congressional appropriation is required. Revenue is realized from fees on acquisitions of goods and services from both VA and other government agency customers as approved by VA's Revolving Fund Board of Directors.

The Supply Fund comprises the Office of Acquisition and Logistics and the Office of Procurement, Acquisition, and Logistics, which are organizational elements within the Office of Acquisition, Logistics, and Construction. The Supply Fund is also the funding source for the Office of Small and Disadvantaged Business Utilization.

The Supply Fund provides a broad spectrum of acquisition services, category management oversight, and logistics support operations to VA customers and other government agencies (6 percent of total revenue in fiscal year (FY) 2023). Service offerings include awarding and administering cost-effective multiple award and national contracts to meet the health care-related information technology (IT), supply, and equipment needed to operate the largest integrated health care system in the Nation.

VA Franchise Fund

The Franchise Fund is a self-sustaining revolving fund providing common administrative services which are funded on a fee-for-service basis rather than through appropriations. This means organizations, internal to VA and external agencies, provide reimbursement to the fund for services received. As such, no Congressional appropriation is required.

The Franchise Fund is comprised of an administrative office and eight self-supporting enterprise centers. VA's enterprise centers provide administrative services in the areas of IT, financial management, personnel security and law enforcement, and human resources. The complete list of the Franchise Fund enterprise centers includes Information Technology Infrastructure Operations, Debt Management Center, Financial Services Center, Internal Controls Support Center, Law Enforcement Training Center, Personnel Security Adjudication Center, Human Capital Services Center, and the Center for Enterprise Human Resources Information Services. Each focuses on adopting efficient, standardized business processes resulting in high customer satisfaction. VA's enterprise centers are accountable to the Revolving Funds Board of Directors and adhere to guidance on quality, cost, and customer service.

The Franchise Fund enterprise centers also support the OMB Cross-Agency Priority Goal of Sharing Quality Services, "The Government strives to identify opportunities to improve stewardship of taxpayer dollars, to create high performing, centralized capabilities for mission-support functions and to make more resources available for agency mission-specific work."

The Franchise Fund enables VA to leverage commercial solutions and innovative practices to provide high-quality cost-effective solutions to VA and other government agencies. The enterprise centers are required to recover all their expenses through revenue collection, i.e., their operations are totally dependent upon revenues realized from internal and external customers' purchases of services. In addition, they also market their services as appropriate to other government agencies (15 percent of total revenue in FY 2023), including the Department of Homeland Security, Department of Health and Human Services, and Department of the Air Force. Providing services to other government agencies spreads the Franchise Fund's fixed costs over a larger unit base, which leads to lower costs for all customers, including customers internal to VA. This economy of scale leads to more effective use of taxpayer dollars.

VA Revolving Funds Oversight and Best Practices

Oversight for VA's Revolving Funds is conducted through the Revolving Funds Board of Directors which functions as the principal governance body overseeing the Supply Fund and Franchise Fund's strategic priorities, goals, and objectives. It also provides strategic leadership for the Supply and Franchise Funds' operations, execution, and management of overall risks and challenges. The Revolving Funds Board of Directors is co-chaired by the Deputy Chief Financial Officer and Deputy Chief Acquisition Officer of the Department with board members consisting of six other VA senior leaders from the Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, Office of Human Resources and Administration/Operations, Security, and Preparedness, and Office of Information and Technology. VA's Administrations and Staff Offices' participation on the Revolving Funds Board of Directors ensures Revolving Funds resources strategically serve VA's mission.

To emphasize transparency and accountability for a \$2.2 billion budget, each Franchise Fund Enterprise Center and Supply Fund Acquisition Center is required to complete a 2-year Business Plan on an annual basis. The Revolving Funds Board of Directors reviews and approves each Business Plan which details specific revenue and expense projections, full-time equivalent staffing levels, and contract support requirements prior to funds execution. Information from the approved Business Plans is used to develop Budget Summary data and is included in Part 5 of the VA President's Budget Submission.

The Revolving Funds Board of Directors also ensures that each entity complies with their respective Business Plan through monthly budget execution reviews. Explanations are provided for variances above or below 10 percent from estimates and briefed to the Revolving Funds Board of Directors during quarterly meetings. In addition, the enterprise and acquisition centers establish key performance indicators each year. These key performance indicators help the Revolving Funds Board of Directors gauge progress toward achieving customer service goals and progress is briefed during quarterly meetings.

Finally, VA Revolving Funds financial statements are audited by a private sector public accounting firm each year to provide an independent assessment of each Revolving Fund's financial stewardship. As a result of sound financial management

business practices, the Franchise Fund received 26 and the Supply Fund received 16 consecutive unmodified “clean” opinions.

In closing, VA’s Revolving Funds provide shared services to meet customer service demands effectively and efficiently, providing significant benefit to VA’s Administrations and Staff Offices, as well as other government agencies. As the Government Accountability Office (GAO) noted in a recent report, “Commerce Working Capital Fund: Policy and Performance Measure Enhancements Could Help Strengthen Management” (GAO–23–104624), on a similar function in another agency, “Given the fiscal pressures facing the federal government, consolidating and sharing services—such as payroll or information technology services—within and among agencies is one-way agencies can operate more efficiently. Shared services may also allow agencies to benefit from economies of scale and take advantage of specialized expertise.” VA’s Revolving Funds adhere to this principle and are consistent with GAO’s recommendation.

Madam Chairwoman and Members of the Subcommittee, thank you again for the opportunity to discuss VA’s Revolving Funds. This concludes my testimony. My colleagues and I are happy to respond to any questions you may have.

Prepared Statement of Julie Matta



United States Government Accountability Office

Testimony

Before the Subcommittee on Oversight
and Investigations, Committee on
Veterans' Affairs, House of
Representatives

For Release on Delivery
Expected at 2:00 p.m. ET
Wednesday, January 17, 2024

REVOLVING FUNDS

Key Features

Statement of Julia C. Matta, Deputy General Counsel

GAO Highlights

Highlights of [GAO-24-107270](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

Why GAO Did This Study

GAO's mission is to support Congress in meeting its constitutional responsibilities, including its oversight of the use of public funds. GAO has particular expertise in the area of appropriations law, which governs the use of appropriations made by Congress and protects Congress's power of the purse. GAO's *Principles of Federal Appropriations Law* manual provides information on many topics related to this area of the law, including revolving funds.

The hearing is to examine revolving funds at the Department of Veterans Affairs. GAO's testimony provides background information on revolving funds. This testimony is based on GAO's prior legal work related to revolving funds, including the *Principles of Federal Appropriations Law* manual.

This testimony describes key features of revolving funds, including their establishment, types of revolving funds, and the applicability of key appropriations law principles.

View [GAO-24-107270](#). For more information, contact Julia C. Matta at (202) 512-4023 or MattaJ@gao.gov.

January 17, 2024

REVOLVING FUNDS

Key Features

What GAO Found

Only Congress can make public money available to federal agencies. Congress does so by making appropriations, which take a variety of forms. One such form is a revolving fund, which authorizes an agency to retain and use specified receipts for particular purposes. Revolving funds are intended to finance cyclical, business-like operations. The activity financed by a revolving fund will collect receipts from the public or other federal agencies and use those receipts to finance the fund's ongoing operations. Often, the activity supported by a revolving fund will become self-sustaining, eliminating the need for future annual appropriations.

There is a key feature of revolving funds that distinguishes them from other appropriations: the receipts collected by the fund are available without the need for further congressional action and without fiscal year limitation.

Even so, revolving funds remain appropriations. As such, they can only be created by Congress. Agencies must have explicit statutory authority to operate a revolving fund. The statute authorizing the creation of a revolving fund will specify the receipts which the fund may collect and retain, define the fund's authorized uses, and authorize the agency to use the collected receipts for the specified purposes without fiscal year limitation.

In addition, revolving funds are subject to the legal restrictions on the use of appropriated funds. These restrictions include:

- The purpose statute, which requires that agencies use appropriated funds only for the purposes for which Congress appropriated them;
- The Antideficiency Act, which forbids agencies from incurring obligations (that is, legal liabilities to make payments) or making expenditures that exceed the amount available in an appropriation or fund; and
- The recording statute, which requires agencies to record obligations against available appropriations as they incur them.

Similarly, agencies doing business with a revolving fund must also comply with appropriations law restrictions. These requirements ensure that revolving funds—like other appropriations—are spent in accordance with the law.

Prior GAO work has addressed many agency activities financed by various revolving funds, as well as the financial and management issues that arise as agencies carry out revolving fund activities.

B-335844

GAO-24-107270

Chairwoman Kiggans, Ranking Member Mrvan, and Members of the Subcommittee:

Thank you for the opportunity to discuss key features of revolving funds, including how they are established, revolving fund types, and the applicability of key appropriations law principles. Like all appropriations, revolving funds represent an exercise of Congress' power of the purse. The framers vested Congress with this power by providing in the Constitution that "[n]o Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law."¹ Appropriations represent legal authority granted by Congress to incur obligations and to make payments for the purposes, during the time periods, and up to the amount limitations specified in the appropriations acts.² This arrangement ensures that the government remains accountable to the will of the people and provides a key check on the power of the other branches. It also ensures that agencies may not act without authority from Congress.

Congress has built on this constitutional foundation by enacting statutes that further congressional control over the public fisc. For example, the "miscellaneous receipts" statute, 31 U.S.C. § 3302(b), requires agencies to deposit funds received from sources outside of congressional appropriations into the appropriate general fund of the Treasury, unless the agency is otherwise authorized to retain and use the funds. Without an appropriation, agencies may not withdraw funds from the Treasury once deposited. This statute ensures that agencies remain dependent on Congress for appropriations to finance their operations, preserving Congress' role as controller of the public purse.

Applying these appropriations statutes requires balancing Congress' congressional power of the purse with the legitimate need for some executive flexibility in carrying out funded activities. This balance is notable in the area of revolving funds.

¹ U.S. Const., art. I, § 9, cl. 7.

² See *United States ex rel. Becker v. Westinghouse Savannah River Co.*, 305 F.3d 284, 286 n. 1 (4th Cir. 2002), citing GAO, *Principles of Federal Appropriations Law*, Vol. 1, 2nd ed., ch. 1, OGC-94-33 (Washington, D.C.: Nov. 1991).

Typical statutory authority for a revolving fund permits an agency to retain receipts and deposit them into the fund to finance the fund's operations.³ Revolving funds are therefore exceptions to the miscellaneous receipts statute discussed above. The concept of a revolving fund is to permit the financing of some entity or activity on a more "business-like" basis. Laws that establish revolving funds may authorize agencies to perform work for the public, other federal agencies, or both. A 1977 GAO report summarized revolving funds in this way:

"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 buyer/seller relationship exists. . . . Such a market atmosphere is intended to create incentives for customers and managers of revolving funds to protect their self-interest through cost control and economic restraint, similar to those that exist in the private business sector."⁴

This description remains as true today as it was nearly 50 years ago. 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 carry out future operations."⁵ Importantly, revolving funds are appropriations and are therefore subject to the legal restrictions on the use of appropriated funds. A key feature of revolving funds distinguishes them from annual appropriations: the generated or collected receipts are available for expenditure for the authorized purposes of the fund without the need for further congressional action and without fiscal year limitation. Because of this feature, revolving funds are permanent appropriations.⁶

From an agency perspective, revolving fund authority provides a few advantages: increased flexibility for the agency, as funds are available without further congressional action; increased flexibility as funds are available without fiscal year limitation; and streamlined interagency

³ See GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: Sept. 2005), at 88 (Budget Glossary).

⁴ GAO, *Revolving Funds: Full Disclosure Needed for Better Congressional Control*, [GAO/PAD-77-25](#) (Washington, D.C.: Aug. 30, 1977), at 2; see also GAO, *Commerce Working Capital Fund: Policy and Performance Measure Enhancements Could Help Strengthen Management*, [GAO-23-104624](#) (Washington, D.C.: Dec. 2022).

⁵ *Id.* at 47.

⁶ Budget Glossary, at 88.

transactions that avoid the legal and administrative requirements of the Economy Act.

Establishment of Revolving Funds

Perhaps the most fundamental rule relating to revolving funds is that a federal agency may not establish a revolving fund unless it has specific statutory authority to do so. As stated previously, the miscellaneous receipts statute requires that any money a federal agency receives from any source outside of its congressional appropriations be deposited in the general fund of the Treasury unless otherwise provided. Since this requirement is statutory, exceptions must be statutory. Thus, agencies have no authority to administratively establish revolving funds.

The legislative authority creating a revolving fund must be explicit, though there is no prescribed formula. There is a long-established pattern of using the term "revolving fund" to mean the authority to retain specified receipts and to use them for authorized purposes without further congressional action and without fiscal year limitation.⁷ However, as long as the statute contains the required elements, use of the phrase "revolving fund" is not necessary. To create a revolving fund, a statute must do the following:

- Specify the receipts or collections which the agency is authorized to credit to the fund;
- Define the fund's authorized uses;
- Authorize the agency to use receipts for those purposes without fiscal year limitation.

The receipts in a revolving fund may be generally categorized as either initial receipts or ongoing/operational receipts. The typical revolving fund may receive an initial infusion of working capital to enable it to finance operations until the fund begins to receive operational receipts. The initial capital is normally furnished as part of the legislation establishing the fund, and there may be a requirement that the fund repay the initial investment. The initial funds may be in the form of a lump-sum appropriation, a transfer from an existing appropriation or fund, a transfer of property, borrowing authority, or some combination of these.

After the initial capitalization, the defining feature of a revolving fund is its ability to retain and use ongoing receipts. A revolving fund can also mean "a fund which when reduced is replenished by new funds from specific

⁷ D-209680, Feb. 24, 1983; 1 Comp. Gen. 704 (1922); 26 Comp. Dec. 295 (1919).

Revolving Fund Types

sources,” whether or not generated by the fund’s operations.⁸ The statute will prescribe the types of receipts that may be credited to the fund, and only these authorized receipts may be credited to the fund’s balance.

GAO has identified three broad categories of revolving funds—public enterprise, trust, and intragovernmental. These designations are helpful in organizing our discussion, but they do not denote substantive legal differences, with the exception of trust funds. Since all three categories are revolving funds, they share the common elements of revolving funds: they are created by act of Congress and they authorize the use of receipts without further congressional action.

A *public enterprise revolving fund* derives most of its receipts from sources outside the federal government. It usually involves a business-type operation which generates receipts that are in turn used to finance a continuing cycle of operations. Although not necessarily legally required, public enterprise funds are often largely self-sustaining.⁹

A *trust revolving fund account* is similar to other types of revolving funds except that it is used for specific purposes or programs in accordance with a statute that designates the fund as a trust fund.

An *intragovernmental revolving fund’s* receipts come primarily from other government agencies, programs, or activities. It is designed to carry out a cycle of business-type operations with other federal agencies or separately funded components of the same agency. Some intragovernmental revolving funds perform services or provide goods themselves, while others enter into contracts with private vendors.

Intragovernmental funds include funds frequently designated in law as supply funds, working capital funds, and franchise funds, among others. Supply funds finance the operation and maintenance of an agency’s supply system. Working capital funds generally finance the centralized provision of common services within an agency. Working capital funds may also provide goods or services to other agencies on a reimbursable basis. A franchise fund is a type of intragovernmental revolving fund designed to compete with similar funds of other agencies to provide common administrative services. Examples of such services include accounting, financial management, information resources management,

⁸ 23 Comp. Gen. 986, 988 (1944).

⁹ D-302962, June 10, 2005.

personnel, contracting, payroll, security, and training. Franchise funds are intended to encourage competition among agencies in providing these services to increase efficiency and reduce costs.

Applicability of Key Appropriations Law Principles to Revolving Funds

All of the types of funds discussed above share a fundamentally important characteristic of revolving funds: they are all appropriations. Hence, funds in a revolving fund are appropriated funds. This rule flows from the Appropriations Clause of the Constitution and the miscellaneous receipts statute,¹⁰ which together require the deposit of receipts and restrict the withdrawal of those receipts from the Treasury.¹¹ The authority for an agency to obligate or expend collections without further congressional action amounts to a continuing appropriation or permanent appropriation of the collections.¹² Even revolving funds that have paid back an initial capitalization and become self-sustaining remain appropriations.¹³

Because a revolving fund is an appropriation, it will be subject to the statutes that guide and restrain agencies' use of appropriated funds. Appropriations have three key characteristics: purpose, time, and amount. Appropriations are also subject to a recording requirement for obligations. Congress has enacted statutes that pertain to each of these characteristics, and these statutes apply to revolving funds.

Purpose

The purpose statute requires that appropriated funds may be used only for the purposes for which they were appropriated.¹⁴ The purpose statute applies to revolving funds in exactly the same manner as it applies to other appropriations.

First and foremost, we look to the statute creating the revolving fund to determine the fund's authorized purposes. The terms of the statute, in conjunction with other applicable statutory provisions, define the fund's availability. For example, prior to its 2009 amendment, the General Services Administration's Working Capital Fund, which was available for the expenses of operating "a central blueprinting, photostating, and

¹⁰ 31 U.S.C. § 3302(b).

¹¹ U.S. Const., art. I, § 9, cl. 7; 31 U.S.C. § 3302(b).

¹² *United Biscuit Co. of America v. Wirtz*, 359 F.2d 206, 212 (D.C. Cir. 1965), *cert. denied*, 384 U.S. 971 (1966); 73 Comp. Gen. 321 (1994).

¹³ 60 Comp. Gen. at 326; 35 Comp. Gen. at 438.

¹⁴ 31 U.S.C. § 1301(a).

duplicating service”¹⁵ could not be used to finance the agency’s central library or travel office, as these functions did not fall within the authorized purposes of the fund.¹⁶

While the statute is the first and most important source for determining purpose availability, it cannot be expected to spell out every detail. If the statute does not address a particular item, the next step is to apply the “necessary expense” rule, which allows appropriations to be used for those items that bear a reasonable and logical relationship to the stated purpose of the appropriation. This means that a revolving fund is available for expenditures which are directly related to, and which materially contribute to accomplishing an authorized purpose of, the fund and which are not otherwise specifically provided for or prohibited. For example, the Bureau of Engraving and Printing Fund is available “to operate the Bureau of Engraving and Printing.”¹⁷ Under this quite general language, the Fund has been held to be available for various alterations and improvements to the Bureau’s real property, as these are clearly necessary costs of operating and maintaining the Bureau.¹⁸

Prohibitions on the use of appropriated funds will apply to the use of revolving funds unless some statutory exception applies. For example, appropriated funds are generally not available to pay for personal expenses, such as clothing and food.¹⁹ As a result, revolving funds are not available for such expenses, unless Congress has explicitly authorized it. In analyzing the purpose availability of a revolving fund, as with any other appropriation, the agency has reasonable discretion in selecting its means of implementation, as long as its exercise is consistent with the statutory objectives and limitations.

Time

Each appropriation has a period of availability that specifies when it is available for use. Appropriations will fall into one of three categories: fiscal year or annual appropriations, which are available for single fiscal year; multiple year appropriations, which are available for a specified period of time greater than one fiscal year; and no-year appropriations, which are available without fiscal year limitation. Appropriations are

¹⁵ 40 U.S.C. § 3173 (2006).

¹⁶ B-208697, Sept. 28, 1983.

¹⁷ 31 U.S.C. § 5142.

¹⁸ B-104492, Oct. 4, 1951.

¹⁹ See, e.g., 65 Comp. Gen. 738 (1986) (food); 63 Comp. Gen. 245 (1984) (clothing).

generally only available for those goods and services that an agency needs during the appropriation's period of availability.²⁰ For example, an appropriation for a single fiscal year may only be used to purchase those goods and services the agency requires during that fiscal year. This is often called the *bona fide* needs rule, and it ensures that agencies use their appropriations in a timely manner consistent with the terms of the enacting legislation. No-year appropriations and funds available without fiscal year limitation are not subject to the *bona fide* needs rule.

Receipts and collections earned through a revolving fund's operations are available without fiscal year limitation. This continuing availability of receipts and collections that a revolving fund has earned through its operations has long been recognized as an inherent characteristic of a revolving fund.²¹ Thus, the various rules governing the obligation and expenditure of fixed-year appropriations with respect to time generally do not apply to receipts and collections that a revolving fund has earned. Instead, the funds are available until expended, for the goods and services the fund requires at any time.²²

However, a federal agency entering a transaction with a revolving fund must still satisfy the various time rules that apply to its own appropriation. Specifically, the customer agency must obligate its appropriation for a *bona fide* need within the specified period of availability.²³ In addition, when an agency withdraws funds from its appropriation and makes them available to a revolving fund, the withdrawn amounts retain their time character until the revolving fund has actually earned them by performing the service or ordering the good that the customer agency requested.²⁴

As a result, unless otherwise specifically provided by law, balances that have not been earned during the ordering appropriation's period of availability must be returned to the customer agency. For example, a

²⁰ 31 U.S.C. § 1502(a).

²¹ While the more modern statutes tend to include specific language such as "without fiscal year limitation" without more, the term "revolving fund" alone would be construed to mean the same thing. 1 Comp. Gen. 704 (1922); 26 Comp. Dec. 296 (1919).

²² See B-326945, Sept. 28, 2015 (discussing a no-year appropriation) ("Because the appropriation's temporal availability is unlimited, the temporality of the needs that the appropriation may satisfy is also unlimited.").

²³ 31 U.S.C. § 1502(a).

²⁴ See B-306975, Feb. 27, 2000; B-288142, Sept. 6, 2001.

2001 decision involving the Library of Congress's FEDLINK revolving fund addressed the time availability of funds transferred by a customer agency. FEDLINK's authorizing statute provides that amounts in the revolving fund are available "without fiscal year limitation."²⁵ However, for the funds to inherit this characteristic, the Library has to earn them. FEDLINK customers advance funds to the Library based on the estimated cost of their order. Where the advance exceeds the Library's actual cost, the Library must return the excess to the ordering agency before the end of the appropriation's period of availability. The Library cannot reserve the unexpended amounts to cover future year orders placed by the customer agency but instead must return excess funds to the customer agency.²⁶

Amount

As discussed above, the amount within a revolving fund may be made up of an initial appropriation and operating receipts. A common feature of most revolving funds is that they are intended to operate on a break-even basis, or reasonably close to it, over the long term.²⁷ Thus, while revolving funds are intended to facilitate business-like operations, they are not generally intended to be profit-making enterprises. Many revolving fund statutes include a requirement for the periodic payment of surplus amounts to the general fund of the Treasury.²⁸

As with other appropriations, authorities and limitations relating to the amount that can be obligated or expended apply to revolving funds unless specifically exempted. The most important law relating to amount is the Antideficiency Act, which by its terms applies to an "appropriation or fund."²⁹ The Antideficiency Act prohibits the overobligation or expenditure of appropriated funds and prohibits the obligation of anticipated receipts. These limitations apply to revolving funds, including any relevant annual limitations on obligations from the fund.³⁰

²⁵ 2 U.S.C. §182c.

²⁶ B-288142, Sept. 6, 2001.

²⁷ Several franchise funds are authorized to retain a reasonable operating reserve and up to 4 percent of total annual income as a reserve for acquisition of capital equipment and enhancement of support systems. *See, e.g.*, Pub. L. No. 104-208, § 113.

²⁸ *See, e.g.*, 38 U.S.C. § 3749 (Department of Veterans Affairs Small Business Loan Revolving Fund).

²⁹ 31 U.S.C. § 1341(a)(1)(A).

³⁰ *See* 72 Comp. Gen. 59 (1992); D-248967.2, Apr. 21, 1993.

The law is violated by creating an obligation in excess of available budgetary resources. Available budgetary resources may include amounts received from other government accounts that represent valid obligations of the ordering account or could include amounts received from the public.³¹ A revolving fund can also violate the Antideficiency Act by overspending a specific monetary limitation, or by charging an appropriation that is not legally available for a particular expense.³²

The Antideficiency Act also requires the apportionment of appropriations and funds by the Office of Management and Budget (OMB).³³ Apportionment subdivides an appropriation to prevent overobligation and promote the most effective and economical use of funds.³⁴ Revolving funds are subject to apportionment,³⁵ and an overobligation of a revolving fund's apportionment violates the Antideficiency Act.³⁶

Another important concept related to the amount character of appropriations is the rule against augmentation, which generally prevents federal agencies from supplementing their appropriations from outside sources. The miscellaneous receipts statute is the primary manifestation of this rule, which provides that an agency may not retain for credit to its own appropriations anything Congress has not expressly authorized. As we noted above, a revolving fund is an exception to the requirement that receipts be deposited into the general fund of the Treasury. However, agencies may only deposit into a revolving fund those receipts that the governing legislation specifies. Depositing unauthorized amounts into a revolving fund is an unauthorized augmentation which violates the miscellaneous receipts statute. Congress specifies the source of money

³¹ Available budgetary resources do not include anticipated receipts from transactions that have not yet occurred. B-195316-O.M., Jan. 30, 1980. Therefore, an agency may not obligate against anticipated receipts unless explicitly authorized to do so.

³² B-120480, Sept. 6, 1967.

³³ 31 U.S.C. § 1511(a), 1512.

³⁴ GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: Sept. 2005), at 12–13.

³⁵ See OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, § 120.5, *id.* at Exhibit 120I.

³⁶ 31 U.S.C. § 1517(a).

and property that should make up a revolving fund, and additional sources cannot be added without statutory authorization.³⁷

Obligation Requirement

One of the ways agencies track their use of appropriated funds—and ensure compliance with the statutes discussed above—is by recording obligations. The recording statute, 31 U.S.C. § 1501, requires agencies to document obligations as they are incurred. A 1953 decision put it this way:

"In order to determine the status of appropriations, both from the viewpoint of management and the Congress, it is essential that obligations be recorded in the accounting records on a factual and consistent basis throughout the government. Only by the following of sound practices in this regard can data on existing obligations serve to indicate program accomplishments and be related to the amount of additional appropriations required."³⁸

The primary purpose of the recording statute is to ensure that agencies record only those transactions which meet specified standards for legitimate obligations.³⁹ Transactions that do not meet the statutory criteria are not proper obligations and shall not be recorded.

Nothing exempts revolving funds from the obligation recording provisions of 31 U.S.C. § 1501. When a revolving fund does something that meets one of the statutory recording criteria, it must, just like other appropriations, record an obligation.⁴⁰ For example, when a revolving fund enters into a contract, it must record an obligation equal to its legal liability under the contract against amounts in the fund.

Furthermore, only transactions that meet the statutory criteria for an obligation may be recorded against the revolving fund. For example, agreements that lack the requisite specificity may not be recorded as obligations. In a 2007 decision, GAO considered interagency agreements between the Department of Defense (DOD) and a revolving fund of the Department of Interior. The agreements at issue did not identify the specific items or services that DOD wanted the revolving fund to acquire

³⁷ B-149858-O.M., Aug. 15, 1968.

³⁸ 32 Comp. Gen. 436, 437 (1953).

³⁹ 71 Comp. Gen. 109 (1991); 54 Comp. Gen. 962, 964 (1975); see also Senate Committee on Government Operations, *Financial Management in the Federal Government*, S. Doc. No. 87-11, at 85 (Dec. 24, 1973).

⁴⁰ See, e.g., 72 Comp. Gen. 59 (1992).

on its behalf. Since specificity is a requirement for a proper obligation, the agreements did not obligate DOD's funds. DOD sent more specific information for the orders to the revolving fund at a later date, which served to obligate DOD's appropriations; however, at that point, DOD's appropriations had expired and they were not available for obligation in the fiscal year when the orders were perfected. Accordingly, when the revolving fund later used these funds, the revolving fund improperly used prior year funds from the ordering agency in violation of the bona fide needs rule, discussed above.⁴¹ Proper recording of obligations and a return of unexpended expired balances to the ordering agency is essential to avoid such violations.

Concluding Remarks

In conclusion, revolving funds can be useful funding mechanisms where Congress wishes to provide agencies some flexibility in carrying out business-like operations. Revolving funds are nevertheless appropriations that are subject to statutory restrictions on the use of public money. As such, agencies must use prudence and caution in obligating and expending revolving funds to ensure that their use is consistent with the relevant statutes.

GAO's engagement work on agency financial operations has touched on revolving funds in a variety of contexts.⁴² GAO staff are available to discuss this work with you in more detail if you wish.

Chairwoman Kiggans, Ranking Member Mrvan, and members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have.

Contact Information

If you or your staff have any questions about this testimony, please contact Julia C. Matta, Deputy General Counsel, at (202) 512-4023 or mattaj@gao.gov. Contact points for our Offices of Congressional

⁴¹ B-308944, July 17, 2007.

⁴² As part of this engagement work, GAO has identified four key operating principles for effective management of working capital funds based on a review of governmentwide guidance on business principles, internal controls, managerial cost accounting, and performance management. See, e.g., GAO, *Personnel Vetting: DOD Should Improve Management and Operation of its Background Investigation Working Capital Fund*, GAO-23-105812 (Washington, D.C.: July 2023); GAO, *Commerce Working Capital Fund: Policy and Performance Measure Enhancements Could Help Strengthen Management*, GAO-23-104624 (Washington, D.C.: Dec. 2022); GAO, *Revolving Funds: Additional Pricing and Performance Information for FAA and Treasury Funds Could Enhance Agency Decisions on Shared Services*, GAO-16-477 (Washington, D.C.: May 2016).

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