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The subcommittee met, pursuant to notice, at 10 a.m., in room 100-B, George Washington Inn, Hon. Dante B. Fascell (chairman of the subcommittee) presiding.


Also present: M. Joseph Matan, staff administrator; Charles Rothenberg, counsel; and Millicent Y. Myers, clerk.

Mr. Fascell. The subcommittee will come to order.

We are meeting this morning because it is the responsibility of the Legal and Monetary Affairs Subcommittee of the House Government Operations Committee to examine and evaluate the efficiency and economy of the operations of certain executive branch departments and agencies, including those of the Federal Deposit Insurance Corporation.

This hearing will inquire into the recommendations of the Comptroller General of the United States in audits of the Federal Deposit Insurance Corporation that the Federal Deposit Insurance Act be so amended as to require—

(a) that the Corporation assume all costs of providing retirement, disability, and compensation benefits for Corporation employees; and

(b) that the General Accounting Office make its report on audits on a calendar-year basis.

Our first witnesses this morning will be from the Comptroller General's Office. We have with us Mr. Max Neuwirth, who is the Assistant Director, accompanied by Mr. Gerard Wilker, Civil Accounting and Auditing Division, and James M. Campbell, attorney, Office of the General Counsel.

Mr. Neuwirth, you may proceed any way you like. You may read your statement or summarize it.
Mr. Neuwirth. Mr. Chairman, I would like to read my statement. Mr. Chairman and members of the subcommittee, we welcome this opportunity to appear before you.

We appear before you today in connection with the possible enactment of legislation required to implement the recommendations contained in our report to the Congress on the Federal Deposit Insurance Corporation for the fiscal year ended June 30, 1962, and preceding years.

Our recommendations are designed (1) to provide that the Corporation reimburse the Government for its share of the cost, and related administrative expenses, of retirement benefits and of compensation benefits for its employees; and (2) to require that audits of the Corporation's financial transactions be made by the General Accounting Office on a calendar-year basis rather than on a fiscal-year basis as is presently required. The Corporation has consistently supported these recommendations made in our annual reports on audits of the Corporation.

Since the first pay period beginning after June 30, 1957, the Corporation has contributed to the Civil service retirement fund in amounts equal to the contributions made by its employees. The Corporation's contributions are made pursuant to the Civil Service Retirement Act Amendments of 1956. However, this act does not provide for retroactive contributions, and, therefore, the Corporation has not contributed its share of the cost of providing retirement benefits for its employees for the period from its inception on June 16, 1933, to July 13, 1957. Consequently, this cost will be borne by congressional appropriations unless the Federal Deposit Insurance Corporation is required to contribute its share of the cost of these employee benefits for the period from its inception to July 13, 1957. In addition, the Corporation has never borne its share of the cost of administering the fund. This cost has been financed from appropriated funds and we believe it would be equitable for the Corporation to bear its pro rata share of administering the benefits accruing to its employees.

We estimate that payments of $4 million would be required to reimburse the civil service retirement fund for benefits provided to the Corporation's employees without cost to the Corporation. This estimate is based on the Corporation’s payments being equivalent to the amount of the employees' contributions and is exclusive of interest and the Corporation’s pro rata share of the cost of administering the fund.

In addition to the civil service retirement benefits, employees of the Federal Deposit Insurance Corporation receive compensation benefits for disability or death resulting from personal injury sustained while in the performance of their duties. The Corporation has not reimbursed the Federal employees' compensation fund for compensation benefits received by its employees and, consequently, these costs have
been borne from appropriated funds. The Federal Employee's Compensation Act Amendments of 1960 require a mixed ownership corporation to reimburse the fund for the total cost of compensation benefits accruing to its employees after December 1, 1960, and to pay its fair share of the cost of administration of the Employees' Compensation Act. Officials of the Corporation have advised us that they believe the Corporation is neither required nor authorized to reimburse the fund for these costs but that they would support legislation authorizing the Corporation to make such payments.

Payments of about $71,000 would be required to reimburse the employees' compensation fund for the benefits received prior to fiscal year 1963, by the Corporation's employees without cost to the Corporation. This estimate is exclusive of the cost of administering the fund.

In summary, the foregoing recommendations contemplate the enactment of an amendment to the Federal Deposit Insurance Act requiring the Corporation (1) to pay its share of the cost of civil service retirement benefits for its employees for the period from inception to July 13, 1957, (2) to reimburse the compensation fund for benefits paid to the Corporation's employees retroactive to inception of the Corporation and currently after enactment of the amendment, and (3) to pay its fair share of the cost of administering both systems retroactive to its inception and currently after enactment of the amendment. We believe that these costs should be borne from the Corporation's revenues derived from the assessments regularly received from insured banks. The contemplated amendment would result in the Corporation's bearing generally all costs pertaining to its operations except unemployment compensation benefits which are too small to justify the cost of determining the applicable amounts.

Our second recommendation contemplates an amendment to the Federal Deposit Insurance Act to specify the calendar year as the fiscal year of the Corporation for accounting, auditing, and reporting purposes and require the General Accounting Office to make its reports of audits accordingly rather than as of June 30 each year as is presently required. Since inception, the Corporation has submitted its annual report to the Congress on a calendar-year basis. Banks in general submit financial reports and statistics on a calendar-year basis. It would facilitate our audit and it would also be advantageous to the Corporation if the period covered by the audit were the same as that covered by the Corporation's annual report.

Mr. Chairman, this concludes my prepared statement. We will be glad to answer any questions you or members of your subcommittee may have.

Mr. FasceLL. Thank you, Mr. Neuwirth.

Mr. Anderson, do you have some questions?

Mr. Anderson. The total cost of enactment of these recommendations that you have made would be $4 million, is that right?

Mr. Neuwirth. $4 million, sir, is the estimate, but it does not include interest and a pro rata share of administrative expense of the fund.

Mr. Anderson. Is that particular—do you know whether that particular recommendation is one that is embodied in the law as far as other Government agencies are concerned?
In other words, do all of the other agencies that are involved in the fund contribute a certain share of the administrative expense?

Mr. Neuwirth. Retirement contributions since 1957, yes. Prior to 1957, no.

In other words, for civil service contributions since the enactment of the 1956 act.

Mr. Anderson. But this provision would only be prospective, as far as that portion of your recommendations are concerned? I mean this sharing of the administrative burden or expense.

Mr. Neuwirth. No, sir. We believe both administrative experience and benefit contributions should be retroactive, as well as prospective.

Mr. Anderson. Why would you be that stringent with respect to the FDIC, if the other agencies have only paid their pro rata share since 1957?

Mr. Neuwirth. Well, sir, we have had similar recommendations in other reports to the Congress on other corporations, such as Export-Import Bank. We have had the same recommendations, sir, in the report of practically every corporation that we audit.

But, unfortunately, there has not been sufficient congressional interest.

Mr. Anderson. Is this a difficult accounting job, to ascertain with any mathematical certainty what their fair share of the expense is, going all the way back to 1933?

Mr. Neuwirth. You mean for other corporations?

Mr. Anderson. No, this particular Corporation.

Mr. Neuwirth. No, sir. We have a figure that I believe can answer your question. The Civil Service Commission sets up a rate per employee on the current pay role of each agency. It averages about $1. We believe that—

Mr. Anderson. $1 a year, you mean?

Mr. Neuwirth. $1 a year per employee.

From our recent reports, the number of personnel in the Federal Deposit Insurance Corporation is about 1,200. Taking an average of a thousand employees per year from inception in 1933 to 1963, at this dollar rate, it would total $30,000.

Mr. Anderson. I see.

That is all the questions I have.

Mr. Pasceill. Mr. McClory?

Mr. McClory. Mr. Neuwirth, who initiated this idea of the FDIC contributing back or volunteering to reimburse the Federal Government in this way?

Mr. Neuwirth. We did, sir—in our reports going back to 1947. And the reason for it is that the FDIC, as you know, operates out of revenues: assessments received from banks. They meet all of their costs from these revenues. As a matter of fact, they are on record in many periodicals and reports in which they take pride in the fact that they don’t want any support from the Government. We believe that these contributions are a cost—the same as a payroll cost, to the FDIC, in carrying on their business, because their employees have received benefits from the fund.

Mr. McClory. Now, when you computed what the possible liabilities of the FDIC are to the banks, didn’t you—you made an actuarial computation—
Mr. Neuwirth. No, sir; we did not make an actuarial computation, sir. What we did was we took the matching contribution. In other words, prior to—from 1933 to 1957—

Mr. McClory. I am not talking about the pension benefit at all now. I am just talking about the potential liability of the FDIC. You took the potential liability and you made an actuarial computation, did you not, and then made the assessments on the basis of what your actuaries had provided that the potential liability was?

Mr. Neuwirth. No, sir. We did not make any actuarial computation.

Mr. McClory. Isn't this a funded program of the FDIC? This is a reserve program, is it not?

Mr. Neuwirth. To answer your question, this is the way we computed the $4 million. We did not do it on an actuarial basis.

Mr. McClory. I am not talking about the $4 million. What I would like you to do for me—

Mr. Fascell. You will have to ask the FDIC. He is from the Comptroller General's Office.

Mr. McClory. I see.

Well, let me ask you this, then: With regard to the FDIC contribution or assessment, you have reviewed in the General Accounting Office the validity or the sufficiency of the contributions which have been requested of the contributing banks, have you not?

Mr. Neuwirth. Well, the FDIC, sir, has not made any contributions prior to 1957. The only contributions made were by employees.

Mr. McClory. We are not talking on the same subject. I am not talking about the contributions to the pension fund. I am talking about the assessments against the banks for FDIC insurance.

Mr. Neuwirth. This was part of our review, yes, sir, the assessments from the banks.

Mr. McClory. Yes.

Now, excluding for the moment the pension benefits of the employees, has the General Accounting Office considered the sufficiency of the assessments that the FDIC makes—requires of the banks?

Mr. Neuwirth. Well, I can only answer you in that respect, that there is a $2½ billion reserve in the deposit insurance fund.

Mr. McClory. Now, that $2½ billion reserve that was accumulated—at the time that the assessments were made—it did not take into account this liability of reimbursing the Government?

Mr. Neuwirth. Apparently not.

Mr. McClory. No. So that you have computed the assessment was more than sufficient, and it can adequately absorb this?

Mr. Neuwirth. Yes, sir.

Mr. McClory. There is no doubt in your mind about that?

Mr. Neuwirth. No, sir.

Mr. McClory. What are the reserve funds? What are they invested in? Government securities?

Mr. Neuwirth. Government securities, as we understand, at about 2 percent.

Mr. McClory. And the Government securities are going to be paid off through taxes that are levied against the taxpayer ultimately. So this is really a tax liability, is it not? It is a taxpayer liability ultimately.
Mr. Neuwirth. Well, the revenues, of course, come from assess­ments to the banks in this case, an outside source.

Mr. Mc Coy. That is right. But the reserves that are built up are all invested, are they not?

Mr. Neuwirth. As far as we know.

Mr. Mc Coy. And they are invested in Federal securities?

Mr. Neuwirth. Yes, sir.

Mr. Mc Coy. And the obligation of the Federal securities is the obligation of the taxpayer, is it not?

Mr. Wilker. I might point out, Congressman, that there is a formula provided by the act whereby the assessments from the banks are first applied to cover the administrative costs, and the actual and potential losses of the corporation. After covering these expenses two-thirds of the balance is returned to the banks and one-third goes into this reserve fund.

Mr. Mc Coy. There have been refunds, have there?

Mr. Wilker. Yes, sir.

Mr. Mc Coy. I see.

Now, is the assessment—the future assessments, they will have to be increased, will they not, to reflect those additional obligations of the FDIC?

Mr. Wilker. Not necessarily, sir. It will just increase the administrative expenses, and reduce the amount returned to the banks.

Mr. Mc Coy. This is going to make the Federal balance sheet—one item—look better to the extent of $4 million, is it not?

This is really a contribution of $4 million on the asset side of the Federal Government that otherwise would not occur.

Mr. Neuwirth. That is correct. This $4 million will come to the Federal Government.

Mr. Mc Coy. The Budget Bureau—have they been pressing you on this at all?

Mr. Neuwirth. No, sir.

Mr. Mc Coy. You have not—there hasn't been any pressure from the White House at all on this?

Mr. Neuwirth. No, sir.

Mr. Mc Coy. This emanates from the General Accounting Office?

Mr. Neuwirth. Yes, sir. And, as I said before, sir, these recommendations go all the way back to 1947, and we have had several administrations since that time.

Mr. Fas ccell. Mr. Neuwirth, as a matter of fact, this problem that we are discussing here this morning is reflected not only in other corporations but also with other governmental retirement funds; isn't that true?

Mr. Neuwirth. When you say "other Government retirement funds"—

Mr. Fas ccell. I am talking about governmental employees generally. Don't we have the problem that the Federal Government has not made contributions to the fund, and that what we are doing is paying out of appropriations each year?

Mr. Neuwirth. Yes, sir.

Mr. Fas ccell. And the problem represented here is a problem we have had practically across the board in Government; that the Congress makes appropriations for payments out of the fund rather
than appropriating the funds necessary to keep the fund actuarially sound; and in this case, we do not even have the employer contributions toward making the fund properly sound?

Mr. Neuwirth. Yes, sir. The contributions have been made only since 1957 by FDIC.

Mr. McClory. Can I ask one more question, Mr. Chairman?

How much would be involved if all of the different governmental corporations repaid the amounts that were originally contributed to these pension funds by the Government? That is, I suppose it exists in the Savings and Loan Corporation, and the RFC.

Mr. Faschel. Not RFC.

Mr. Neuwirth. We don't have a figure like that, but it could be prepared. It would take some effort to do it. We have not prepared such a figure for the other corporations. But we have had this recommendation.

Mr. McClory. With regard to all of them?

Mr. Neuwirth. Yes, sir.

Mr. McClory. So the chances are we will have other studies of this type made in the future?

Mr. Neuwirth. Yes, sir.

I might point out one other thing to you, if I may.

In the basic act of the Virgin Islands Corporation and St. Lawrence Seaway Development Corporation there is a provision that they contribute to the civil service retirement fund. The St. Lawrence Seaway has made such contributions since 1954, and the Virgin Islands since 1950 on the basis of annual billings as determined by the Civil Service Commission for the Government's share of the cost. They have been making these contributions prior to the 1956 act which required FDIC among other Government corporations and agencies to make such contributions.

Mr. McClory. What about TVA? Are they involved in this program in the future? Did we contribute—was there a Federal contribution of TVA employees originally?

Mr. Neuwirth. I am not familiar with it, sir.

Mr. Wilker. I have no personal knowledge of it.

Mr. Neuwirth. Sorry.

Mr. McClory. That is all, thank you.

Mr. Faschel. Mr. Neuwirth, have you ever heard discussion with respect to this problem—that there is a great reluctance in the Congress to require a full contribution by Government corporations on the theory that they might become independent operations, completely separate and apart from the Government?

Mr. Neuwirth. Well, my dealings recently with the FDIC—as we say in our statement here, the FDIC is supporting this legislation.

Mr. Faschel. Any other questions?

Thank you very much, Mr. Neuwirth, and gentlemen.

Mr. Matan has some questions.

Mr. Matan. On page 2 of your statement, in discussing the amount that will be required to reimburse the civil service retirement fund, you give a figure which you say is exclusive of interest.

Is the Comptroller General recommending that interest be paid on the amount that is being contributed into the retirement fund?

Mr. Neuwirth. Well, let me answer you this way, sir.
We have no strong feelings on the subject. But we believe that from an equitable point of view the Federal Deposit Insurance Corporation should pay interest, and we believe it should pay interest at the same rate that it has earned on these moneys which are due. And, as I said a bit earlier, it is my understanding that the rate is approximately 2 percent. We base our opinion on several premises. One is that they had the use of this money. If it was turned over with interest at this time, the FDIC would not be in any worse position than they would be had these payments been made on a current basis.

Mr. Matan. Have you made any computations of the amount the interest would come to?

Mr. Neuwirth. Yes, sir. On the basis of 2 percent, which again I would like to repeat that I believe was the earning rate of the FDIC on its invested funds, it is approximately $1 million. A little over $1 million.

Mr. Matan. What is the rate of earning by the retirement fund? Do you know that, sir?

Mr. Neuwirth. Yes, sir. I believe it is approximately 4 percent, although there have been some variations in the rate. But generally, it is roughly about 4 percent.

Mr. Matan. I have no further questions.

Mr. FasceII. Mr. Neuwirth, in your last audit, did you get any figures you could give us on the size of this fund, and what the contributions to it are on an annual basis, both by the FDIC, and from appropriations?

Mr. Wilker. The retirement fund?

Mr. FasceII. Yes, just the retirement fund.

Mr. Wilker. We don't have figures on the retirement fund, sir.

Mr. FasceII. Well, are they hard to get?

Mr. Campbell. We could get them for you readily, I think.

Mr. Neuwirth. Do you mean the entire contributions to the retirement fund?

Mr. FasceII. In other words, you estimated $4 million as going from 1933 back to 1933? Mr. Neuwirth. That is correct—from 1933 to 1957.

Now, that is based on a matching basis. I would like to emphasize one thing on this $4 million. It is a suggested guide for the committee.

Our computation is based on a precedent set by the Congress in the 1956 act in which it requires corporations and agencies to match employees' contributions. The present rate is 6½ percent. We used that formula as a basis to retroactively determine the amount. This computation has not been made on an actuarial basis.

Mr. FasceII. What I am trying to find out is, What is the amount of the employees' contribution?

Mr. Neuwirth. From the FDIC? We don't have that figure here. The gentleman from the FDIC may have that figure.

Mr. FasceII. In other words, $4 million is an estimated figure based on the amount of contributions fixed in the 1956 act; is that what you said?

Mr. Neuwirth. Well, it is based on that formula, yes.

Mr. FasceII. And that is based on 6½ percent?
Mr. Neuwirth. Well, it is based on matching the employees’ contributions from 1933 to 1957; in other words, we are saying in effect that from 1933 to 1957 employees of the FDIC have paid into the fund approximately $4 million. Therefore, we estimate that on a matching basis, $4 million is due from FDIC for their share of the costs.

Mr. Fasce ll. To the fund?
Mr. Neuwirth. Yes, sir. From an actuarial point of view, it might differ somewhat.

Mr. Fasce ll. Now, from 1957 on, under the act, the corporation and the employees have contributed an equal amount to the fund?

Mr. Neuwirth. As required by the Congress—61/2 percent.

Mr. Fasce ll. Now, on what authority are payments out of the fund made?

Mr. Neuwirth. Payments out of the—

Mr. Fasce ll. Yes. Are they automatic under the act, or is any legislative action required?

Mr. Neuwirth. You mean payment of benefits to retirees from the civil service retirement fund?

Mr. Fasce ll. Right.
Are benefits payable as a result of the law, without any further legislative act?

Mr. Neuwirth. Yes, sir.

Mr. Fasce ll. So, now, what we are talking about is making the fund a complete fund as to FDIC, as properly contemplated by the law, even though the act, when passed in 1957, was not retroactive?

Mr. Neuwirth. Yes, sir. In other words, this would contemplate the FDIC would pay its fair share of the cost to the fund.

Mr. Fasce ll. Now, what would happen in the future if this retroactive payment were not made?

Mr. Neuwirth. If it is not made?

Mr. Fasce ll. Yes.

Mr. Neuwirth. Well, of course, the civil service retirement fund would not have the benefit of those moneys, plus interest. As you know these funds are used to pay benefits to retirees. The fund would be out this amount.

Mr. Anderson. Will the gentleman yield?

Would it be correct, then, to say that in effect what this will do will be to reduce the contingent liability that is constantly being built up under this civil service retirement fund by this $4 million?

Mr. Neuwirth. Yes, by this small amount.

Mr. Anderson. This liability that someday would otherwise have to be met by future appropriations?

Mr. Neuwirth. To the extent of that amount, yes.

Mr. Anderson. I see.

Thank you.

Mr. Fasce ll. Any other questions?

Thank you very much, Mr. Neuwirth, and gentlemen.

Now, we will hear from representatives of the FDIC. We have Mr. William Moroney, assistant to the Chairman and Controller, Mr. John Lord, General Counsel; Mr. Jack Sronce, Deputy Controller, and Mr. Brooke, Assistant Counsel.

Mr. Moroney. Mr. Lord is not here this morning.

Mr. Fasce ll. Mr. Moroney, we will be very happy to hear from you.
Mr. Moroney. The representatives of the Comptroller General have correctly stated that the FDIC has consistently supported these proposals. They have been making these recommendations. These proposals were first presented by the FDIC to Congress in connection with the Financial Institutions Act of 1957, and later in legislation relating to a modification of the assessments payable to the FDIC in 1960.

But they were never reported out, or never enacted.

Mr. Fasce. Have you had hearings on this matter before the legislative committee of the House?

Mr. Moroney. These proposals were submitted, not in the House. They may have been in the House in 1957, with the Financial Institutions Act. I think they were considered in the Senate in 1957 in connection with the Financial Institutions Act. But they were not reported out then, and the bill, though passed by the Senate, was not reported out by the House, and the Financial Institutions Act of 1957 was not enacted.

Then in 1960 they were in a Senate bill. The major purpose of the bill was to modify the assessments provisions of the Federal Deposit Insurance Corporation Act. The companion House bill which was passed by the House, related only to assessments. It was passed by the Senate without consideration of the Senate bill.

The reason I mentioned that is today I am here to present the views of Mr. Wolcott, who is Director of the FDIC.

Mr. Cocke, who was Chairman, has left the Corporation. His term expired on August 4. Our Board of Directors now consists of Mr. Wolcott, a Director, and the Comptroller of the Currency, who is an ex officio member of the Board. The Comptroller of the Currency has taken no position on these recommendations of the Comptroller General.

So I am submitting today the statement of Mr. Wolcott, who is our Director.

His statement is as follows:

Mr. Chairman, I am pleased to be given an opportunity to express my personal views on proposed legislation being considered by this committee, which would provide that the Corporation assume all costs of providing retirement, disability, and compensation benefits for Corporation employees, and that the General Accounting Office make its report of audits of the Corporation to the Congress on a calendar-year basis.

In my view it would be desirable for the Corporation to repay to the Government all sums heretofore advanced by it on account of benefits that have accrued to the Corporation's employees. Beginning with the fiscal year 1958, the Corporation has been required to contribute and pay into the civil service retirement and disability fund an amount equal to 6 1/2 percent of all salaries paid to its employees. Therefore, I would support any proposal to repay, to the Government, the Government's share of the cost of benefits which have accrued to the Corporation's employees from the time of its inception to the time the Corporation started to contribute its share of the cost of retirement and disability benefits, and to the present time with respect to accrued em-
employees' compensation benefits, and to assume full responsibility for the future cost of such benefits.

The Comptroller General in his report to Congress on his annual audit of the Corporation has recommended that legislation be enacted to accomplish these ends.

It has been estimated that should the Corporation make payments to the Department of Labor, Bureau of Employees' Compensation, for reimbursement of benefits paid to our employees and to the Civil Service Commission for our employees civil service retirement fund payments, the total cost to the Corporation for such payments from the inception of the Corporation through fiscal 1962 would be $4,078,343.91.

The amount which would be due to the retirement fund as computed by the General Accounting Office from the inception of the Corporation to June 30, 1957, after which the Corporation began making payments to the retirement fund, is $4,007,210.91. In computing this amount the Comptroller General took dollar for dollar the total amount contributed by employees to the fund since the creation of the Corporation. The total amount which would be due to the Federal employees' compensation fund for benefits paid to our employees from the inception of the Corporation to June 30, 1953, as determined from data furnished to the General Accounting Office by the Department of Labor, is $64,689. Labor Department reports for the fiscal years from July 1, 1956, through June 30, 1962, indicate that the total amount of Federal employees' compensation benefits paid during that period to our employees was $4,544.

Thus, the total estimated cost for Federal employees compensation fund payments would be $71,133, which figure, added to the $4,007,210.91 cost to the Corporation of civil service retirement fund payments, brings the total potential cost to the Corporation to $4,078,343.91.

The other recommendation of the Comptroller General concerning his annual audit report has my support for the reason that by statute, accounting by the Corporation and auditing by the General Accounting Office are on the basis of a fiscal year ending June 30. Also by statute, the Corporation is required to make an annual report to Congress on a calendar-year basis. Further, the calculation and determination of assessment credits which are provided in the Federal Deposit Insurance Act for the benefit of insured banks must be made on the basis of operations on a calendar-year basis. The complication of requiring financial statements of operations and accountings to be made, for certain purposes, on a fiscal June 30 basis and, for other purposes, on a calendar-year basis, has been confusing and burdensome. It has resulted in unnecessary and duplicate work on the part of the financial and accounting personnel of the Corporation. Accordingly I would support an amendment to the Federal Deposit Insurance Act such as that proposed by the Comptroller General to provide that the Corporation accounting and General Accounting Office auditing would be on the basis of a calendar year rather than the fiscal year now fixed by law.

Draft legislation to accomplish these recommendations has been prepared by the Legal Division of the Corporation and is submitted with this statement for the consideration of the subcommittee.

The foregoing views being personal, they have not been submitted to the Bureau of the Budget for advice as to their relationship to the program of the administration.

Attached to the statement is suggested draft legislation which is comparable to the language submitted by the Corporation in connection with the Financial Institutions Act.

We have a suggested addition to the first sentence in the proposed amendment. This sentence provides for the payment by the Corporation into the civil service retirement fund an amount agreed upon between the Civil Service Commission and the Corporation. We suggest the addition of the words to the first sentence, "on the basis that the Corporation's payments to the retirement and disability fund be equivalent to the contributions made by employees of the Corporation."
FDIC—Assumption of Employee Benefits Costs

The suggested draft legislation referred to follows:

Draft Legislation

A BILL To amend section 13 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1823)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 13 of the Federal Deposit Insurance Act, as amended, is hereby amended by adding thereto at the end thereof the following new subsection:

"(i) The Corporation shall pay into the civil service retirement and disability fund such sum as shall be agreed upon by the Civil Service Commission and the Corporation as the Government's share of the cost of the civil service retirement system applicable to the Corporation's officers and employees and their beneficiaries for the period from the creation of the Corporation to the first day of the first pay period which begins after June 30, 1957. The benefits of the Federal Employees Compensation Act (5 U.S.C. 751-791, 793), as now or hereafter amended, and of the unemployment compensation provided in title XV of the Social Security Act (42 U.S.C. 1361-1370), as now or hereafter amended, shall extend to the officers and employees of the Corporation. The Corporation shall pay into the employees' compensation fund such sum as shall be agreed upon by the Secretary of Labor and the Corporation as being the amount of the benefit payments made from such fund on account of the Corporation's officers and employees prior to January 1, 1963. The Corporation shall, after January 1, 1963, pay into the employees' compensation fund, on the basis of annual billings as agreed upon by the Secretary of Labor and the Corporation, the amount of the benefit payments made from such fund on account of the Corporation's officers and employees. The annual billings shall also include a fair portion of the cost of the administration of the employees' compensation fund, which portion shall be paid by the Corporation into the Treasury as miscellaneous receipts. Any payments made hereunder applicable to periods prior to January 1, 1963, shall be paid out of the Corporation's capital account and shall not affect the 'net assessment income' computed under subsection (d) of section 7 for such periods. Any such costs applicable to periods after January 1, 1963, and any amounts contributed to the civil service retirement and disability fund pursuant to section 4(a) of the Civil Service Retirement Act of May 29, 1930, as amended by the Civil Service Retirement Act Amendments of 1956 (Public Law 554, 84th Congress), shall be included as a part of the administrative and operating costs of the Corporation for the purpose of computing 'net assessment income' as provided in said subsection (d) of section 7, and may be paid upon estimates or formulas subject to subsequent adjustment after audit or other verification, and the amount of any subsequent adjustment shall be charged or credited in the year in which the adjustment is made. Any disagreement between the Corporation and the Civil Service Commission or the Secretary of Labor, as the case may be, as to the propriety or amount of any sum due for past benefits as herein provided or as to the amount of any annual billings shall be determined as the President by Executive order shall direct."

Draft Legislation

A BILL To amend subsections (b) and (c) of section 17 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827 (b) and (c))

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 17 of the Federal Deposit Insurance Act, as amended, is hereby amended by striking the first two sentences thereof and substituting therefor the following three sentences:

"(c) The fiscal year of the Corporation shall be the calendar year. A report of the audit for each calendar year shall be made by the Comptroller General to the Congress not later than June 30 following the close of such calendar year. Provided, That the first report of audit under this provision shall include any period of 1963 or 1964 which has not been included in any audit report. The Comptroller General shall furnish the Corporation a short form report showing the financial position of the Corporation at the close of the calendar year."
year, if it is possible for him to do so in time for inclusion of the report in the Corporation's annual report to the Congress."

Subsection (b) of section 17 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(b)), is amended by deleting the last sentence thereof.

Mr. FASCHELL. Where would you insert that?

Mr. MORONEY. On the seventh line, at the end of the first sentence of the proposed amendment.

Mr. FASCHELL. That would be after the year “1957”?

Mr. MORONEY. There would be a comma after “1957”—

Mr. FASCHELL. Followed by insertion of the language you just read?

Mr. MORONEY. Yes, sir. Our statement is that these would carry out the recommendations made.

I want to call to the attention of the committee that this provides for everything except the administrative costs of the civil service retirement, and it has an added provision stating that the benefits of the Federal Employees Compensation Act as now or hereafter amended and of the unemployment compensation provisions of title XV of the Social Security Act as now or hereafter amended shall extend to the officers and employees of the Corporation.

Mr. FASCHELL. Now, is that last language you read a suggested addition?

Mr. MORONEY. It is in addition to the recommendations of the General Accounting Office; that is, there is a difference of opinion existing between the Labor Department and the Corporation as to the applicability of these two provisions, and we think that they should be made applicable.

But we think it should be clarified with express legislation that they are applicable. It is their opinion they are applicable to us. It is our opinion they are not.

We feel that our employees should have the benefits. And we feel it should be expressly stated in our act.

Mr. FASCHELL. I see.

Now, this additional language, would it be part of the first draft amendment?

Mr. MORONEY. Yes, sir; it is the second sentence of that first page of the draft legislation. With reference to the other point that I raised about not including the administrative costs of the civil service retirement, we do provide for paying a fair share of the administrative costs of the employees compensation. We are uninformed as to whether or not the 6½ percent that is now being paid by the Corporation, matching what the employees pay, would be adequate to pay the administrative costs.

It is my understanding of the present law that the FDIC now pays the same amount as the employee without paying any additional administrative cost. And I don’t know whether or not those funds are adequate that are now being paid to take care of the civil service administrative costs. I am informed by the representatives of the Comptroller General that such administrative costs are paid out of appropriations.

The reason we have not recommended it in here is that the present pattern of agency payment for civil service benefits is a matching of the payments made by the employee, and that is what we have recommended.
The present law with reference to the employees' compensation is that the agency pay a part of the administrative costs. So we have followed that.

That is our statement.

We would be glad to answer any questions.

Mr. FASCELL. Thank you.

Mr. Anderson?

Mr. ANDERSON. If I understand your statement, or the statement of Mr. Wolcott, and your comments, there are no essential points of difference at all between the position taken by the General Accounting Office on this matter and your agency, the FDIC.

Mr. MORONEY. No, except in our present circumstance. The Corporation in the past has supported these recommendations. Today, Mr. Wolcott is supporting them. Mr. Saxon, the Comptroller of the Currency, has taken no position on them, either for them or against them; and our present board officially has not acted on them.

But in the past the Corporation has supported these proposals.

Mr. ANDERSON. I have no further questions.

Mr. FASCELL. Mr. McClosky?

Mr. McClosky. Mr. Moroney, this is the first hearing you have had before a congressional committee on this subject, is it not?

Mr. MORONEY. I am quite sure this proposal was up before the Senate Banking and Currency Committee, and it wasn't included in their reported bill. My understanding of it, then, is that we had a proposal and the General Accounting Office had some comments on it that were different than ours, and I do not know why it wasn't included. I don't recall any general discussion of it at the time of those hearings.

Mr. McClosky. Did you request the present hearing?

Mr. MORONEY. No, sir. This, as I understand it, arose from the inclusion of these recommendations in the General Accounting Office audit report on our Corporation. And it has been in their audit reports for the last 5 or 6 years at least, or longer.

Mr. McClosky. The committee initiated the hearing?

Mr. FASCELL. That is right, Mr. McClosky. It is our responsibility to review all of the reports of the General Accounting Office, and this just arose in the normal course of business.

Mr. McClosky. Now, with regard to Federal employees, the provisions of the Federal Employees Compensation Act, are the FDIC employees covered now under the Federal Employees Compensation Act?

Mr. MORONEY. It is their opinion that our employees are covered.

Mr. McClosky. But this is the first time it is being specifically written into the law, that the FDIC employees are covered; is that right?

Mr. MORONEY. That is right. And the same language that provides for the coverage of employees under their act, is applicable to the Federal employees unemployment compensation.

Mr. McClosky. Do you know what the total reserves are of the Federal Deposit Insurance Corporation, with regard to all of its liabilities?

Mr. MORONEY. The Federal Deposit Insurance fund is approximately $2.6 billion.
Mr. McClory. And this added liability, then, of some $4 million comes out of that—will be deducted from that reserve?

Mr. Moroney. In this draft legislation, starting on the second page, it provides that—

Any payments made hereunder—

That is the back payments to these two funds, approximately $4 million—

applicable to the period prior to January 1, 1963, shall be paid out of the Corporation's capital account and shall not affect the net assessment income computed under subsection (d) of section 7 for such periods. Any such costs applicable to periods after January 1, 1963, and any amounts contributed to the civil service retirement and disability fund, pursuant to the 1956 amendments to the Civil Service Act, shall be included as a part of the administrative and operating costs of the Corporation for the purpose of computing net assessment income as provided in said subsection (d) of section 7—

Annually, the net assessment income figure is determined by taking the total assessments and deducting from that the expenses of the Corporation and its losses that year, and then giving the banks a credit of 66²⁄₃ percent, and the 33⅓ percent goes into our fund along with the income from our investments.

Mr. McClory. Well, in theory, at least, whether it works out in terms of dollars or not—in theory, at least, the assessments that are made in the future will have to be sufficient to compensate for this $4 million that is paid out of the capital account.

Mr. Moroney. No, sir. The proposal here is that the $4 million be paid out of our deposit insurance fund, but that hereafter any payments to either of these funds, as have been our payments since 1957 to the retirement fund, be treated as an annual expense, deductible from assessments before the credit is made to the bank.

Mr. McClory. And you feel that this payment out of the capital fund, then, can be made without impairment or without jeopardizing the liabilities of the FDIC?

Mr. Moroney. Yes, sir.

Mr. Sronce. It would only amount to about one-sixth of 1 percent of the fund.

Mr. McClory. The assessments that have been made heretofore have had a little leeway in them—at least to the extent of this $4 million for the period 1933–62.

Mr. Sronce. Yes, sir. Assessments, by the way, are established or set by law.

Mr. Moroney. This credit that the banks get was first included in the law in the amendments of 1950. The smaller amount of the proposed payments, matching employees' payments into the retirement fund, would be for that period between 1941, when our employees generally were covered by civil service, and 1950. We believe that it would be smaller in that period before any credit was provided than it would be in the period 1950–57.

Mr. McClory. What percentage of the total FDIC reserves are invested in Federal securities?

Mr. Moroney. Practically all of them.

Mr. McClory. So that if there was any actual cash liability that the FDIC had to assume, you would have to cash the bonds in order to pay the liability, meet the obligation?
Mr. Moroney. That is right.
Mr. McClory. That is all I have.
Thank you.
Mr. Fascell. Mr. Matan?
Mr. Matan. Mr. Moroney, does support of the Comptroller General's recommendations also include a willingness to pay interest on the amount to be paid into the retirement fund?
Mr. Moroney. Mr. Wolcott's statement doesn't make any recommendation on the interest. If the committee determines that it is advisable or desirable, it will be for the determination of the committee?
Mr. Matan. Have you given any consideration to the rate of interest which should be paid?
Mr. Moroney. Well, we have--
Mr. Matan. The rate on which it should be computed?
Mr. Moroney. Well, we have figured that on the same basis as the General Accounting Office has.
Mr. Matan. Do you come to about the same figure? They had a million dollars as a round figure.
Mr. Moroney. Yes. We came to a figure on the retirement payment.
We figured it on the basis at 2 percent it would be $1,006,933 on the retirement and disability payments, and on the compensation payments it would be $22,413, or a total for both at 2 percent simple interest of $1,029,346.
Mr. Matan. If the payment of interest were to be inserted in the law, would that require an amendment to your proposed legislation?
Mr. Moroney. Yes, sir.
Mr. Matan. I have only one other question.
Have you calculated whether there would be any savings to the Corporation if its accounting, the GAO accounting, were changed to the calendar rather than the fiscal year?
Mr. Moroney. I don't think we calculated savings. It would avoid some duplications and obviously there would be some savings. And it would be a better way to do it and more convenient.
I think there would be some savings.
But we have not estimated any.
Mr. Fascell. It would certainly be more efficient, would it not?
Mr. Moroney. That is right.
Mr. Sronce. It would also have the benefit of giving the Congress an audit of the report that we furnish them.
As it is now, we give the Congress a report as of the end of the year, the calendar year. And in that report is the General Accounting Office audit report of our preceding June 30 statement. So we are out of step to that extent.
Mr. Fascell. And with no way to reconcile them, either, except with a great deal of difficulty?
Mr. Sronce. No, sir. There is no attempt to reconcile them in the report.
Mr. Fascell. I understand that. And if somebody else wanted to do it, it would be very difficult, if not impossible.
On the matter of the estimated amount of contributions to the retirement fund prior to 1957, was the amount that was not contributed by the FDIC actually paid out of appropriations?
Mr. Moroney. I am no expert on the workings of the retirement fund, sir, but I would just assume that Congress has set a pattern that the fund should operate on a basis of the agency matching the employees' contribution. And it is on that basis that has been considered by Congress necessary to make the retirement fund work—that our assumption is made as to what our contribution should be.

Mr. Fasce ll. But if benefits were paid out in the period between 1933 to 1957, and they were not payable wholly out of employee contributions, then any differential would have had to be paid out of appropriated funds? There is no question about that?

Mr. Moroney. That is right.

Mr. Fasce ll. Now, we don't know what the extent of that is, do we?

Mr. Moroney. No, sir.

I think it would be very difficult to determine that. That is why it seems reasonable to use the basis they have suggested, that Congress adopted in 1956 to become applicable to agencies in 1957.

Mr. Fasce ll. What does the FDIC now pay into the retirement fund on an annual basis?

Mr. Sronce. The Corporation itself is paying about half a million dollars a year and the employees are paying about the same.

Mr. Fasce ll. Is that estimate on the calendar-year or fiscal-year basis?

Mr. Sronce. This is on a fiscal-year basis.

Mr. Fasce ll. So that would be as of last June 30?

Mr. Sronce. Yes, sir.

Mr. Fasce ll. Approximately $500,000?

Mr. Sronce. We have a statement here covering the 6 months period ended June 30, 1963. Our civil service and Federal Insurance Contributions Act payments amounted to $303,000. That is for the last 6 months preceding June 30.

Mr. Fasce ll. Do you have any figures to show what benefits were paid in that same period?

Mr. Moroney. We don't have information on the benefits paid. It may vary—that is, an employee counts his time with us—he may work for us, and then some place else. And he combines all his service.

Mr. Fasce ll. If we wanted that figure, we would have to get it from the fund itself?

Mr. Moroney. I am not sure they would have it, without terrific expense, sir.

Mr. Fasce ll. Well, somebody must know how much is paid out in benefits over a 6-month period to the employees, or former employees, of the Corporation.

Mr. Moroney. Well, it would be this problem: Suppose the man worked for us for a period, and then for another agency, and then he had his Army service. It would be quite a chore.

Mr. Fasce ll. There is no way to relate it back directly to the time of his employment with the Corporation?

Mr. Moroney. That is right.

Mr. Fasce ll. So basically, we are talking about a matter of principle, as far as repayment by the FDIC to the fund is concerned, because there is no way to compute and charge back to the fund the actual benefits that were paid to FDIC employees?
Mr. Moroney. That would get it away from being a general retirement fund. That is, it is probably to the advantage of all agencies that it is a central fund with the risks spread out, rather than benefits to employees of each agency. Our experience might be greater or less than that of any other agency. We have no way of knowing.

Mr. Fascell. So it is all intermingled?

Mr. Moroney. That is right.

Mr. Fascell. Any other questions?

Gentlemen, thank you very much.

The subcommittee will stand in recess.

(Whereupon, at 11 a.m., the subcommittee recessed, subject to the call of the Chair.)
APPENDIXES

APPENDIX A—PORTION OF REPORT ON AUDIT OF FEDERAL DEPOSIT INSURANCE CORPORATION, JANUARY 1963

COMPTROLLER GENERAL OF THE UNITED STATES,

B-114831.

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

Hereewith is our report on the audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1962.

Our audit disclosed no new matters requiring recommendations to the Congress. We are, however, repeating two recommendations to the Congress which were contained in prior audit reports. The recommendations relate to amending the Federal Deposit Insurance Act to require (1) that the Corporation assume all costs of providing retirement, disability, and compensation benefits for Corporation employees and (2) that the General Accounting Office make its reports of audits on a calendar-year basis. The Corporation has consistently supported both these recommendations.

Senate bill 2609, introduced in the 86th Congress on August 27, 1959, to amend the Federal Deposit Insurance Act included provisions which would have resulted in the adoption of these recommendations. The bill, however, was not enacted.

Copies of this report are being sent to the President of the United States and to the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation.

JOSEPH CAMPBELL,
Comptroller General of the United States.

REPORT ON AUDIT OF FEDERAL DEPOSIT INSURANCE CORPORATION, YEAR ENDED JUNE 30, 1962

The General Accounting Office has made an audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1962, pursuant to section 17(b) of the Federal Deposit Insurance Act (12 U.S.C. 1827). The scope of the audit work performed is described on page 19 of this report.

GENERAL COMMENTS

The Federal Deposit Insurance Corporation is an independent Government agency which was created in 1933 by the Banking Act of 1933. The Corporation insures the deposits of banks entitled to the benefit of insurance in the maximum amount of $10,000 for each depositor. All national banks in the United States and all State banks that are members of the Federal Reserve System are required to be insured. Nonmember National and State banks may become insured upon application and approval for insurance.

On page 20, we express an opinion that the financial statements present fairly the financial position of the Federal Deposit Insurance Corporation at June 30, 1962, and the results of its operations and the sources and application of its funds for the year then ended, except that we are unable to express an opinion on the adequacy of the deposit insurance fund to meet future losses.

1 This act added section 12b to the Federal Reserve Act, which section, as amended, was withdrawn from the Federal Reserve Act and made the Federal Deposit Insurance Act and amended by the act of Sept. 21, 1956, and subsequent acts (12 U.S.C. 1811).
FDIC—ASSUMPTION OF EMPLOYEE BENEFITS COSTS

RECOMMENDATIONS TO THE CONGRESS

Our audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1962, did not disclose any new matters requiring recommendations to the Congress. We are, however, repeating two recommendations included in reports on audits for prior years. The two recommendations follow.

Cost of providing retirement, disability, and compensation benefits for corporation employees

We recommend that the Federal Deposit Insurance Act be amended to require the Corporation to pay—

1. Into the civil service retirement and disability fund the Government's share of the cost of providing retirement and disability benefits for the Corporation's employees for the period from the creation of the Corporation through the year ended June 30, 1957.

2. Into the employees' compensation fund the amount of benefit payments made from such fund on account of the Corporation's employees for all periods subsequent to the creation of the Corporation.

3. Into the Treasury as miscellaneous receipts a fair portion of the cost of administering the civil service retirement system and the employees' compensation fund for all periods subsequent to the creation of the Corporation.

Senate bill 2609 introduced in the 86th Congress on August 27, 1959, to amend the Federal Deposit Insurance Act would have required the Corporation to make the foregoing payments and would have resulted in the Corporation's bearing all costs pertaining to its operations from inception. The bill was not enacted.

Audits by the General Accounting Office

We recommend that section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827(c)) be amended to require that the General Accounting Office make its reports of audits on a calendar-year basis rather than on a fiscal-year basis. The previously mentioned Senate bill 2609, which was not enacted, included a provision specifying the calendar year as the fiscal year of the Corporation for accounting, auditing, and reporting purposes and requiring the General Accounting Office to make its reports of audits accordingly.

The Corporation has consistently supported these recommendations.

APPENDIX B—LETTER FROM ERLE COCKE, SR., CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION, TO HON. DANTE B. FASCCELL, JUNE 21, 1963

FEDERAL DEPOSIT INSURANCE CORPORATION,

HON. DANTE B. FASCCELL,
Chairman, Legal and Monetary Affairs Subcommittee, Committee on Government Operations, House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your letter of March 12, 1963, requesting the comments and present views of the Corporation on the recommendations contained in the Comptroller General's report on the audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1962, which repeats the following two recommendations made in prior reports: (1) That the Corporation assume all costs of providing retirement, disability, and compensation benefits for Corporation employees, and (2) that the General Accounting Office make its reports of audits on a calendar-year basis.

You are advised that the Corporation has consistently supported these recommendations and our present views thereon remain unchanged.

The Federal Deposit Insurance Corporation operates without appropriated funds, since its entire income is derived from assessments paid to it by insured banks. The Corporation has refunded, with interest, the original investment in its capital stock made by the Treasury and the Federal Reserve banks and it has accumulated a reserve insurance fund in excess of $2,500 million, while caring for operating costs and expenses. The Corporation desires to repay to the Government all sums heretofore advanced by it on account of benefits that have accrued to the Corporation's employees. Beginning with the fiscal year 1958, the Corporation has been required to contribute and pay into the
FDIC—ASSUMPTION OF EMPLOYEE BENEFITS COSTS

Civil service retirement and disability fund an amount equal to 6½ percent of all salaries paid to its employees. Therefore, the Corporation would support any proposal to repay, to the Government, the Government’s share of the cost of benefits which have accrued to the Corporation’s employees from the time of its inception to the time the Corporation started to contribute its share of the cost of retirement and disability benefits, and to the present time with respect to other accrued benefits, and to assume full responsibility for the future cost thereof.

The Comptroller General in his reports to Congress on his annual audit of the Corporation has recommended that legislation be enacted to accomplish these ends. During his audit of the Corporation for the fiscal year ending June 30, 1958, the Comptroller General estimated that the cost of reimbursement to the Government of benefits paid to Corporation employees by the Bureau of Employees’ Compensation and for civil service retirement benefits received for these periods of time would amount to $3,908,125.60. It is estimated that the additional cost covering the benefits through the end of fiscal year 1962 would amount to $6,444.

The second recommendation of the Comptroller General is supported by the Corporation for the reason that by statute, accounting by the Corporation and auditing by the General Accounting Office are on the basis of a fiscal year ending June 30. Also by statute, the Corporation is required to make an annual report to Congress on a calendar-year basis. Further, the calculation and determination of assessment credits which are provided in the Federal Deposit Insurance Act for the benefit of insured banks must be made on the basis of operations on a calendar-year basis. The complication of requiring financial statements of operations and accountings to be made, for certain purposes, on a fiscal June 30 basis and, for other purposes, on a calendar-year basis, has been confusing and burdensome. It has resulted in unnecessary and duplicate work on the part of the financial and accounting personnel of the Corporation. An amendment to the Federal Deposit Insurance Act such as that proposed by the Comptroller General to provide that the Corporation accounting and General Accounting Office auditing would be on the basis of a calendar year would be supported by the Corporation.

Sincerely yours,

Erie Cocke, Sr., Chairman.

APPENDIX C—LETTER FROM HON. JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES, TO HON. DANTE B. FASCELL, AUGUST 19, 1963, WITH ENCLOSURE

B-114831.

Hon. Dante B. Fascell,
Chairman, Legal and Monetary Affairs Subcommittee, Committee on Government Operations, House of Representatives.

Dear Mr. Chairman: In accordance with the request of your subcommittee staff, we are presenting herein additional information relating to the recommendations contained in our report to the Congress on the Federal Deposit Insurance Corporation for the fiscal year ended June 30, 1962, and preceding years.

These recommendations are:

1. That the Federal Deposit Insurance Act be amended to require the Corporation to—
   a. Pay into the civil service retirement and disability fund the Government’s share of the cost of providing retirement and disability benefits for the Corporation’s employees for the period from creation of the Corporation through the year ended June 30, 1957.
   b. Pay into the employees’ compensation fund the amount of benefit payments made from such fund on account of the Corporation’s employees from the time of
   c. Pay into the Treasury as miscellaneous receipts a fair portion of the cost of administering the civil service retirement system and the employees’ compensation fund for all periods subsequent to the creation of the Corporation.
2. That section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827(c)) be amended to require that the General Accounting Office make its reports of audits on a calendar-year basis rather than on a fiscal-year basis.

The costs of the benefits provided to the Corporation's employees and the Corporation's share of the costs of administering the retirement system and the compensation fund described in item 1 have been or are being borne from appropriated funds. We believe that these costs should be borne from the operating revenues of the Corporation derived from the assessments regularly received from insured banks.

From the Corporation's inception, in 1933, to March 1, 1941, only those employees who had transferred to the Corporation from other Government agencies were covered under the civil service retirement and disability system. This coverage was a continuation of the coverage enjoyed by these employees during their employment by the other Government agencies. Employees recruited elsewhere were not covered for retirement and disability benefits. Effective March 1, 1941, the President issued Executive Order 8390 covering most positions in the Federal Deposit Insurance Corporation into the competitive classified civil service, and thereby making these employees eligible for civil service retirement and disability benefits.

Contributions to the civil service retirement fund for all of these employees were made only for the amounts deducted and withheld from the employees' salaries for that purpose; no employer contributions to the fund were made by the Federal Deposit Insurance Corporation through June 30, 1957. The Corporation has contributed to the fund currently thereafter under the provisions of the Civil Service Retirement Act Amendments of 1956 (5 U.S.C. 2251) which require that from and after the first day of the first pay period beginning after June 30, 1957, a sum equal to the employees' contributions shall also be contributed from the employer's appropriation or fund which is used for payment of salaries, pay, or compensation. However, the act does not provide for retroactive contributions and, therefore, the Corporation has not contributed its share of the cost of providing retirement and disability benefits for its employees for the period from inception to June 30, 1957.

Although the Corporation has been required since July 1957 to pay its share of the cost of providing retirement and disability benefits for its employees, it has not made any payments into the employees' compensation fund in reimbursement of compensation payments made to its employees nor borne any part of the cost of administering the civil service retirement system and the employees' compensation fund.

In this connection, the terms of the Federal Employees' Compensation Act Amendments of 1960 (5 U.S.C. 785(c), supp. IV) require any mixed ownership corporation as defined in 31 U.S.C. 856 to pay the total cost of benefits and other payments made from the employees' compensation fund during the preceding fiscal year on account of the injury or death of employees or persons under the jurisdiction of such instrumentality occurring after December 1, 1960, and, in addition, a mixed ownership corporation is required to pay its fair share of the cost of administration of the Employees' Compensation Act. Under the terms of the Government Corporation Control Act (31 U.S.C. 856), the Federal Deposit Insurance Corporation is classed as a mixed ownership Government corporation.

The Department of Labor requested payment from the Corporation in the amount of $477 to cover reimbursement for compensation benefits and other payments made from the fund to the Corporation's employees on account of injury or death occurring during fiscal year 1962 and for the Corporation's fair share of the cost of administering the Federal Employees' Compensation Act. By a letter dated June 24, 1963, the Chairman of the Board of Directors of the Corporation declined to make payment on the grounds that—

"The employees of this Corporation are not included among those defined under the Federal Employees' Compensation Act as eligible to receive such compensation because that section specifically includes officers and employees of instrumentalities of the United States 'wholly owned by the United States.' Under applicable rules of statutory construction, this definition would exclude employees of the Corporation since it is not an instrumentality of the United States 'wholly owned by the United States.'"

The Corporation believes that the Federal Deposit Insurance Act should be amended to specifically provide for its reimbursing the compensation fund for benefits paid to its employees and for its fair share of the cost of administering the fund.
Our recommendations contemplate the enactment of an amendment to the Federal Deposit Insurance Act requiring the Corporation (1) to pay its share of the cost of civil service retirement and disability benefits for its employees for the period from inception to June 30, 1957, (2) to reimburse the compensation fund for benefits paid to the Corporation’s employees retroactive to its inception and currently after enactment of the amendment, and (3) to pay its fair share of the cost of administering both systems retroactive to its inception and currently after enactment of the amendment. Such an amendment would result in the Corporation’s bearing generally all costs pertaining to its operations except unemployment compensation benefits paid to former employees of the Corporation. The unemployment compensation benefit payments are estimated to be too small to justify incurring the cost of determining the applicable amounts.

We estimate that payments of $4 million would be required under the proposed amendments to the act, exclusive of the Corporation’s share of the cost of administering the civil service retirement system and the employees’ compensation fund. This estimate is based on the premise that the act would provide that the Corporation’s payments to the retirement and disability fund be equivalent to the employees’ contributions.

Also, it is desirable that the proposed amendment to the act specify the calendar year as the fiscal year of the Corporation for accounting, auditing, and reporting purposes and require the General Accounting Office to make its reports of audits accordingly rather than as of June 30 each year as is presently required. Since inception, the Corporation has submitted its annual report to the Congress on a calendar-year basis. Banks in general submit financial reports and statistics on a calendar-year basis. The audit would be facilitated and it would be advantageous to the Corporation if the period covered by the audit were the same as that covered by the Corporation’s annual report.

A list of the Executive orders and legislation placing the Federal Deposit Insurance Corporation employees under the civil service retirement system is attached.

Sincerely yours,

JOSEPH CAMPEBLL,
Comptroller General
of the United States.

LIST OF EXECUTIVE ORDERS AND LEGISLATION PLACING THE CORPORATION’S EMPLOYEES UNDER THE CIVIL SERVICE RETIREMENT SYSTEM

1. Title 5, United States Code, section 631.
2. Title 5, United States Code, section 2251.
3. Title 31, United States Code, section 856.
4. Executive Order 7316, June 24, 1938.
5. Executive Order 8044, January 31, 1939.
6. Executive Order 8059, March 1, 1941.