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Report to Sen. Robert C. Byrd, Chairman, Senate Committee on
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Minority Member; by Elmer B. Staats, Comptroller General.

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The Smithsonian Institution maintained 41 accounts in financial institutions and the United States Treasury. Most of these were small checking accounts used to pay expenses at Smithsonian locations outside the District of Columbia. The use of five principal accounts was reviewed, two at the American Security and Trust Company, two at the Riggs National Bank, and a deposit suspense account in the United States Treasury. Findings/Conclusions: The Smithsonian Institution has adopted adequate procedures for the management of cash in its private funds. It strives to maintain only sufficient funds in its two principal non-interest-bearing checking accounts to pay the payroll checks and other checks presented for payment each day. Through the use of repurchase agreements, a savings account, and short-term investments, the Smithsonian attempts to earn interest on any funds not needed immediately to pay its expenses. However, during the period January through April, 1977, it made no attempt to earn interest on the American Security and Trust checking account float. The Smithsonian keeps separate accounting records for the Smithsonian Research Foundation. (Author/SW)



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WASHINGTON, D. C. 20548

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September 20, 1977

To the Chairman
and Ranking Minority Member
Subcommittee on Interior
Committee on Appropriations
United States Senate

This report discusses the Smithsonian Institution's private funds banking practices, which your Subcommittee asked us to look into, and which were not discussed in our March 31, 1977 report (GGD-77-43) on the Smithsonian.

As of April 30, 1977, the Smithsonian maintained 41 accounts in financial institutions and the United States Treasury. Most of these are small checking accounts used to pay local expenses at Smithsonian locations outside Washington, D.C.

Our review was limited to analysis of the use of five principal accounts--two at the American Security and Trust Company, two at the Riggs National Bank, and a deposit suspense account in the United States Treasury. In our view the Smithsonian has established adequate procedures to keep non-interest-bearing checking account balances at minimum levels sufficient to serve its needs.

FUNDS MANAGEMENT

The Smithsonian Treasurer has overall responsibility for the Smithsonian's financial assets. The investments accounting division in the Office of the Treasurer is responsible for cash management and cash needs forecasting. One employee in the accounting division of the Office of the Treasurer is engaged full-time in monitoring and analyzing the bank accounts and in providing the investments accounting division with information needed in its cash management responsibilities.

GGD-77-67

The investments accounting division attempts through various methods to invest, on a short-term basis, any operating funds which are temporarily available. In the past 2 years several different methods have been used. Currently, any excess operating funds are deposited in a savings account at American Security and Trust or invested in a short-term investment pool.

When the division's forecasts show that a large amount of cash beyond foreseeable current needs will be accumulated, the Smithsonian Treasurer obtains authorization from the Board of Regents to transfer the excess cash to one of four investment trust accounts maintained at Riggs. These funds are available for longer term investment by three professional investment firms.

U.S. TREASURY SUSPENSE ACCOUNT

The Smithsonian has had a deposit suspense account at the U.S. Treasury for its private funds since 1874. Deposits into the Treasury account consist of grants, gifts, receipts from auxiliary activities such as magazine and museum shop sales, and the various other sources of Smithsonian private funds. Some of these receipts, such as grants and museum shop sales, are now first deposited in a Riggs collection account and then transferred daily to the Treasury account. At one time the Treasury account served as the Smithsonian's principal checking account from which payroll and other payments were made. However, that function is now handled primarily through a Riggs payroll account and the American Security and Trust operating account. Withdrawals are made from the Treasury account for transfers to the American Security and Trust operating account, Riggs payroll account, and the other checking accounts. When excess funds accumulate in the Treasury account, they are transferred to an American Security and Trust savings account.

We were advised by the Smithsonian that the Treasury account is also used, in a limited way, for payroll purposes and for payment of some accounts payable. The account is charged for salary payments to private employees who want checks sent to a bank, thus enabling Treasury to merge into one document both Federal and private salary payments of Smithsonian employees who designate the same bank. Occasionally checks are also drawn on the account to pay vendors who submit bills for work chargeable in part to the Smithsonian's private funds and in part to its appropriated funds.

The vendors get one check to cover the appropriated fund and private fund charges. Using the deposit suspense account for these two purposes, according to Smithsonian officials, facilitates the accounting work for the Smithsonian, assures prompt and safe receipt of paychecks for those Smithsonian employees designating banks, and eliminates confusion for vendors who would otherwise receive two checks for partial payment of each bill.

In calendar year 1976 the Treasury account had an average daily balance of \$442,000, according to the Smithsonian's books. The Smithsonian later decided to keep the balance at about \$250,000 by transferring the excess to the savings account. A Smithsonian official recently told us that they would reassess the use of the account and the average balance may be further reduced.

ACCOUNTS AT AMERICAN
SECURITY AND TRUST

In March 1966, the Smithsonian opened an account at the American Security and Trust Company for the purpose of depositing receipts from museum shop sales. Later, payments under Federal grants and contracts were deposited in the account. Originally the only checks written on this account were for monthly or bimonthly withdrawals for deposit in the Smithsonian's Treasury suspense account. In July 1968, the Smithsonian began drawing checks on the American Security and Trust account to pay some operating expenses and began making deposits to it, when necessary, from the Treasury suspense account. The account became the Smithsonian's primary operating account--taking over that role from the Treasury suspense account. The change was made because the Smithsonian Treasurer believed that the private bank provided more timely service and information on the operating transactions flowing through the account.

In April 1977, the Smithsonian discontinued using the American Security and Trust operating account as the initial depository for museum shop sales receipts and payments under Federal grants and contracts. All such receipts now go to the Riggs collection account. Thus, the only deposits to the American Security and Trust account are transfers from the Treasury suspense account to cover checks issued in payment of operating expenses.

Investment of excess cash

In June 1975 the Smithsonian entered into a repurchase agreement with American Security and Trust whereby the Smithsonian would withdraw daily from the operating account excess funds which American Security and Trust would invest in short-term money market securities (usually Treasury bills and notes) with the stipulation that American Security and Trust would repurchase them from the Smithsonian to fulfill any Smithsonian cash needs. Prior to this agreement the Smithsonian invested its excess operating funds primarily in Certificates of Deposit. According to the Smithsonian the repurchase agreement provided greater liquidity with a comparable rate of return.

In late 1975 a Smithsonian analysis of the operating account showed that there was an opportunity to also earn interest on the "float" resulting from the timing difference between the writing of the checks on the operating account and their being charged against the account. To accomplish this the Smithsonian broadened its repurchase agreement with American Security and Trust on December 3, 1975.

Under the new agreement American Security and Trust examined the Smithsonian's operating account at the start of business each day. If the balance exceeded whatever amount the Smithsonian had designated as necessary for daily operations (that is, necessary to pay the checks which it expected to clear that day) American Security and Trust would invest the excess. If the balance went below the Smithsonian-designated minimum, American Security and Trust would sell or repurchase for its own account enough of the notes and bills it was holding for the Smithsonian to bring the balance up to the designated minimum. American Security and Trust did not charge the Smithsonian directly for this service but recovered its costs by giving the Smithsonian a slightly lower rate of interest than the bank earned on the funds invested for the Smithsonian.

The use of the repurchase agreement for investment of excess operating funds and checking account float was interrupted twice after December 1975. The first occasion was early in 1976 when interest rates available on money market investments fell below the rate of interest which American Security and Trust paid on savings accounts. The Smithsonian

opened a savings account at American Security and Trust on March 18, 1975, and kept the excess operating funds and the checking account float in the saving account. When needed, transfers were made from the savings account to the checking account to cover checks presented for payment. On May 28, 1976, it was again more profitable to use the repurchase agreement, and the Smithsonian then discontinued using the savings account.

The second interruption lasted from January 3 to April 21, 1977, when Smithsonian officials were making a general reassessment of Smithsonian bank accounts. During this interruption the savings account was used for investment of excess operating funds, but no attempt was made to earn interest on the checking account float. On April 21, 1977, the Smithsonian reverted to using the repurchase agreement with American Security and Trust for investment of the checking account float, after judging it to be the most effective method for investing such funds. Excess operating funds were retained in the savings account.

Our review of the daily bank statement balances in the operating account showed that the Smithsonian was most effective in maintaining this balance at minimum levels when it was investing both excess operating funds and the float. From July 1, 1975, through November 30, 1975, when the Smithsonian retained sole management of the American Security and Trust account, investing only the excess operating funds under the repurchase agreement, the average daily bank balance in the account was \$798,000. For the 13 months (Dec. 1975 to Dec. 1976) that the checking account float, in addition to the excess operating funds, was invested through the repurchase agreement or in a savings account with American Security and Trust sharing in the management of the funds, the average daily bank balance dropped to \$269,000. During January and February of 1977, when the Smithsonian again had sole management of the funds and used the savings account for investing only the excess operating funds, the average daily bank balance in the operating account was \$850,000. However, the average daily check book balance was about \$225,000--the difference of \$625,000 represented by outstanding checks or the float. Investment of the checking account float, as well as the excess operating funds, with daily contact between American Security and

Trust and Smithsonian officials seems to be the most effective way to keep the nonearning balance in the operating account to a minimum.

The operating account at American Security and Trust was used extensively as the Smithsonian's principal checking account for payments other than payroll. During the 15-month period ended September 30, 1976, an average of over 2,600 transactions (deposits and withdrawals) a month were handled by this account. Since the only deposits to the operating account as of April 1977 are from the Treasury account to cover issued checks, excess operating funds no longer accumulate in this account.

Excess operating funds are transferred periodically from the Treasury account to the American Security and Trust savings account. When the savings account balance gets larger than needed for operating liquidity, sums are transferred to the Smithsonian's short-term investment pool or to the outside investment managers for longer term investment. The savings account had a balance of about \$1.4 million on June 22, 1977, the day after \$1 million had been transferred to an investment manager for long-term investment.

Secretary's relationship to American Security and Trust

The Secretary of the Smithsonian was appointed by the Board of Regents in 1963 as a private payroll employee to assume his duties in 1964. He became a member of the board of directors of American Security and Trust in February 1967 and resigned after 10 years service in December 1976. His service on the board was approved by the executive committee of the Smithsonian's Board of Regents. The Smithsonian Institution and the Smithsonian Research Foundation opened bank accounts with American Security and Trust in 1966, before the Secretary was a member of the bank's board of directors, and they were maintained after he was appointed to the board. However, these were not the first accounts the Smithsonian had with American Security and Trust. The Smithsonian first opened an account at the bank in 1927.

Although the Secretary is a member of the Foundation's board of directors, he was not present at the meeting when it was decided to open the account at American Security and

Trust. At that time, however, he was serving as president of the Foundation. We were advised by the Smithsonian that the Secretary no longer owns the American Security and Trust stock which he was required to hold as a director of the bank.

ACCOUNTS AT THE
RIGGS NATIONAL BANK

The Smithsonian opened its payroll checking account at Riggs National Bank in 1955. It is used to pay employees on the private payroll who do not have their paychecks sent to a bank.

The Smithsonian's usual procedure for administering the payroll account is as follows. For each 2-week pay period the Smithsonian deposits in two increments the total amount of the paychecks written against the account for that period. The first deposit, usually for \$150,000, is made on the same day for which the paychecks are dated. The second deposit, for the remainder of the payroll, follows 3 to 5 days later. The average daily bank balance in the account from July 1, 1975, to January 31, 1977, was about \$96,000.

The Smithsonian also has a collection account at Riggs. The account was opened in April 1976 for receipt of mail order payments for museum shop items. Three times daily Riggs' messengers pick up the mail orders from a post office box rented in the Smithsonian's name. The same day the mail is picked up, Riggs deposits any checks received into the collection account and forwards a deposit receipt and a listing of the checks received to the Smithsonian.

In April 1977, the use of this account was expanded to include receipts from over-the-counter museum shop sales and payments received under letters of credit on Federal grants and contracts. Previously these receipts were initially deposited in the American Security and Trust operating account. Money is transferred daily from the collection account to the Treasury suspense account. The balance in the collection account is maintained, together with the payroll account balance, at a level high enough to reimburse Riggs for its payroll and collection services.

Smithsonian officials advised us that use of the collection account reduces the amount of clerical work performed

by Smithsonian employees and results in receipts from revenue-producing activities becoming available to the Smithsonian more quickly than if the receipts were deposited directly into the Treasury suspense account.

Four separate trust accounts are also maintained at Riggs to temporarily hold funds awaiting investment by professional investment managers engaged by the Smithsonian for this purpose. These funds are used for long-term investment, as opposed to the day-to-day investing of operating funds by Smithsonian officials through the checking account repurchase agreement or the savings account at American Security and Trust.

CONCLUSION

In our opinion, the Smithsonian has adopted adequate procedures for the management of cash in its private funds. It strives to maintain only sufficient funds in its two principal non-interest-bearing checking accounts to pay the payroll checks and other checks presented for payment each day. Through the use of repurchase agreements, a savings account, and short-term investments, the Smithsonian attempts to earn interest on any funds not needed immediately to pay its expenses. We believe that beginning in December 1975 it did this successfully, except during the period January 3 through April 20, 1977, when it made no attempt to earn interest on the American Security and Trust checking account float. On April 21, 1977, the Smithsonian resumed earning interest on that float.

Private, nonprofit corporations

The Smithsonian Research Foundation maintained a bank account with American Security and Trust for about 11 years beginning in June 1966. In January 1977, the Smithsonian began acting as the Foundation's fiscal agent and custodian and closed the Foundation's account at American Security and Trust on May 3, 1977. As needed, the Foundation's funds are now withdrawn from the Smithsonian's appropriated fund accounts and deposited in the Smithsonian's U.S. Treasury suspense account. Foundation funds are then withdrawn from the Treasury account and deposited in the Riggs payroll account or the American Security and Trust operating account for the Foundation's use in paying payroll and other costs.

The Smithsonian keeps separate accounting records for the Foundation's funds.

In the 15-month period from July 1, 1975, to September 30, 1976, the average deposits per month in the Foundation's bank account totaled \$166,144, while an average of 300 checks were paid per month, totaling \$162,766. The average daily balance in the account for the 15-month period was \$64,185.

Although the Smithsonian Science Information Exchange has a small checking account at the Madison National Bank for satisfying minor immediate needs, its major cash transactions have been handled by the Smithsonian in a manner similar to that currently used for the Smithsonian Research Foundation.

Scope of review

We reviewed the Smithsonian's policies and procedures for the use of bank accounts and banking services in managing its private funds. In this regard, we examined specifically the transactions recorded in two principal bank accounts--the American Security and Trust operating account and the Riggs payroll account--during the 15-month period ended September 30, 1976. We conducted followup work concerning several bank accounts to find out the current status of the Smithsonian's banking practices.

We also discussed the Smithsonian's banking practices with Smithsonian officials and the certified public accountants who examined Smithsonian private funds, including those on deposit at financial institutions and the United States Treasury. Smithsonian officials reviewed the draft report and we considered their comments in preparing our final report.


Comptroller General
of the United States