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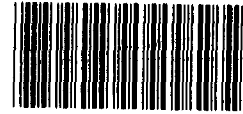

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CASH MANAGEMENT IMPROVEMENT ACT OF 1990 (H.R. 4279)

Statement of
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Before the
Subcommittee on Legislation and
National Security
Committee on Government Operations
House of Representatives

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Mr. Chairman and Members of the Subcommittee:

We are very pleased to be here today and give our views on the Intergovernmental Cash Management Improvement Act of 1990--H.R. 4279--which would provide legislative changes necessary to improve federal cash management and help ensure equity in funding federal programs administered by the states. The purpose of the bill is to increase the efficiency of efforts to manage cash throughout the government by adopting intergovernmental financing concepts and procedures developed by the State/Federal Cash Management Reform Task Force.

GAO has long called for strengthened cash management and fully supports the intergovernmental financing concepts in H.R. 4279. We previously supported these concepts in 1986, when they were part of S. 2230, and in 1987, when we testified on S. 1381 before the Senate Subcommittee on Government Efficiency, Federalism, and the District of Columbia.[1]

As noted in OMB's Management of the United States Government, Fiscal Year 1990, the federal government has improved management of it's $2 trillion cash flow. We see H.R. 4279 as an important opportunity to continue this progress. We also believe that it is important in another respect; it is a good example of what can be

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[1] Cash Management Improvement Act of 1987 (S. 1381), GAO/T-AFMD-87-17, July 22, 1987.

achieved when state and federal representatives work together to solve a long-standing problem.

PAYMENT OF INTEREST: INTERGOVERNMENTAL FINANCING

H.R. 4279 addresses a long-standing cash management problem in federal programs administered by the states--ensuring that neither party incurs unnecessary interest costs. The concerns are even more intensified during periods of high interest rates and budget constraints. Both federal and state officials have raised objections to the current intergovernmental financing arrangements.

The federal government has been concerned about states drawing down federal funds sooner than necessary to cover disbursements for federal programs, thereby profiting from interest earned by holding federal funds. Under the Intergovernmental Cooperation Act (31 U.S.C. 6503), the federal government cannot collect interest from the states in these cases. To help solve this problem, the federal government developed cash drawdown techniques, whereby states would not receive federal funds until their checks cleared the bank. However, these techniques presented problems for many states which have laws requiring that sufficient cash be on hand before checks are issued.

Likewise, the states have complained that they often do not receive federal funds soon enough and must use their own cash to finance federal programs, sometimes waiting several months for reimbursement. When that happens, states cannot charge the federal government for the associated interest costs.

To seek fair and equitable solutions to these problems, and at the urging of members of Congress, the State/Federal Cash Management Reform Task Force was formed in 1983. The results of its excellent work is reflected in H.R. 4279.

The bill would amend the Intergovernmental Cooperation Act and establish a set of intergovernmental cash management policies and practices that can (1) govern the exchanges of funds between the federal and state governments and (2) ensure that neither the federal nor state government benefit or suffer financially as a result of the transfer of cash in support of federal programs--equity is the key.

For example, under H.R. 4279:

-- Agency heads are required to minimize the time elapsing between the transfer of funds by Treasury and the issuance of payments by a state. States are also required to minimize the time between the receipt of federal funds and issuance of payments.

-- The Secretary of the Treasury is to issue regulations that require a state to pay interest on federal funds that are received in advance of need. Conversely, if the federal agency puts the state in the position of having to disburse its own funds for program purposes in accordance with federal law, regulation, or federal-state agreement, the state is to be paid interest by the federal government.

-- The Secretary of the Treasury is to prescribe the methods of paying interest between the states and federal government while ensuring comparable treatment for both parties.

-- The federal government is required to execute grant awards, consistent with program purposes and regulations, on a timely basis to ensure the availability of federal funds when needed by a state to make payments under a federal program. Interest earned by a state on refunds of grant funds is to be returned to the federal government.

The requirements of H.R. 4279 apply to all federal programs. States and the federal government will have 2 years before the interest payment procedures go into effect to give the parties the necessary time to make improvements in cash management practices

and procedures and to put into effect the systems needed to implement the interest payment provisions of this section--a measure which makes good sense.

One significant difference between H.R. 4279 and the earlier Senate bills (S. 1381 and S. 2230) is the requirement that Treasury enter into an agreement with each state on how to implement the requirements of this bill. We think that this is a good idea since there are differences in how the states finance and operate their federal programs. However, the bill does not stipulate what happens if Treasury and a state do not reach an agreement. The Subcommittee may wish to amend the bill to address this problem. One option could be that if an agreement is not reached within the 2-year implementation period, Treasury could specify the implementing regulations until an agreement is forthcoming. Our expectation for this option is that Treasury would negotiate with each state in good faith and not simply wait 2 years and then force its procedures upon a state.

We believe the provisions of H.R. 4279 are fair to the states and the federal government, represent the reasoned judgment of federal and state task force members, and will resolve a long-standing point of contention between the federal government and the states. I would also like to point out that the purpose of this bill is not to raise revenue for either the states or the federal government but rather for both parties to do the best possible job

in managing the cash resources used for federal programs.

The cash management improvements called for in H.R. 4279 will help establish equity between the states and the federal government. If the states pay the federal government very little or no interest, this should mean that the states are only drawing down the cash when it is needed, which in itself saves the federal government interest on its borrowing costs or results in increased income from its investments. On the other hand, if the federal government pays the states interest, these costs are offset by increased federal interest earnings and/or reduced federal borrowing costs that were the result of the state using its own funds on behalf of a federal program.

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Mr. Chairman, this concludes my remarks. We fully support the concepts in H.R. 4279 and stand ready to work with the Subcommittee as it considers the bill. We would be pleased to respond to any questions you or members of the Subcommittee may have at this time.