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Cash Management Improvement Act of 1987 (S. 1381)

Statement of
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Before the
Subcommittee on Government Efficiency,
Federalism, and the District of Columbia,
Senate Committee on Governmental Affairs

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Mr. Chairman and Members of the Subcommittee:

We are very pleased to be here today to give our views on the Cash Management Improvement Act of 1987--S. 1381--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 providing additional procedures and incentives for cash management through

-- the adoption of intergovernmental financing concepts developed by the State/Federal Cash Management Reform Task Force,

-- the establishment of disbursement objectives similar to collection objectives which were mandated in the Deficit Reduction Act of 1984, and

-- the expansion of the use of lockboxes as a means of speeding up the deposit of government collections.

GAO has long called for strengthened federal cash management and fully supports S. 1381. We previously supported the concepts in the bill when they were part of S. 2230, which was reported on favorably last year by the Senate Governmental Affairs Committee.[1]

We see S. 1381 as an important opportunity to continue the progress already made in better managing the government's financial affairs. We also believe that it is important in another respect; it is a good example of what can be achieved when state and federal representatives work together to solve a long-standing problem.

PAYMENT OF INTEREST: INTERGOVERNMENTAL FINANCING

Section 4 of the bill addresses a long-standing cash management problem in federal programs administered by the states--ensuring that neither party incurs unnecessary interest costs. The concerns became 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

[1]Responses to questions in testimony by Charles A. Bowsher, Comptroller General of the United States, before the Senate Governmental Affairs Committee on S. 2230, the Federal Management Reorganization and Cost Control Act of 1986, on May 13, 1986.

interest earned by holding federal funds. Under the Intergovernmental Cooperation Act (31 U.S.C. 6503), the federal government essentially cannot charge the states interest 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, this presented legal 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 the Congress, the State/Federal Cash Management Reform Task Force was formed in 1983. Represented are fiscal officials of six states (Virginia, California, Florida, New Jersey, Tennessee, and Wisconsin) and six federal officials from the Office of Management and Budget and the departments of the Treasury and Health and Human Services. The results of 4 years of excellent work by the Task Force are reflected in section 4 of S. 1381.

Section 4 of 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 governments benefit or suffer financially as a result of the transfer of cash in support of federal programs--equity is the key.

For example, under section 4:

-- 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 a state disburses 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 the 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 section 4 apply to all federal programs and supercede any federal law or regulation in effect at the time S. 1381 is enacted. States and the federal government will have 2 years before the interest payment procedures go into effect to give both 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. We have provided a few technical suggestions to the subcommittee for its consideration in finalizing section 4.

We believe the provisions of section 4 are fair to both parties, 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.

FEDERAL DISBURSEMENT OBJECTIVES

We also support section 3 of S. 1381, which provides legislative incentives to help ensure that federal agencies follow sound cash management concepts in disbursing federal funds. These provisions are patterned after those relating to collections in the Deficit Reduction Act of 1984 (31 U.S.C. 3720). This law provided additional tools to the Secretary of the Treasury to help ensure that federal agencies follow sound cash management concepts in collecting and depositing federal funds. For example, Treasury is now permitted to penalize agencies that do not follow its regulations governing collections by assessing an agency for the cost of any losses to the general fund.

The authority in the Deficit Reduction Act of 1984, however, only covers federal collections but does not extend to federal disbursements. Federal disbursements, which exceed a trillion dollars annually, also present significant cash management concerns. We see no reason why cash management principles in the Deficit Reduction Act should not be applied to federal disbursements as well as collections. Section 3 provides the necessary remedies.

Consistent with this concern, we recently testified[2] before the Senate Governmental Affairs Committee on the Prompt Payment Act Amendments of 1987 (S. 328). The Prompt Payment Act, which was passed under the leadership of the committee, provided a strong foundation for making the federal government a more responsible bill payer. It also had the benefit of providing an incentive for agencies to pay their bills when they are due instead of late. However, during a review[3] completed last year on the implementation of the act, we found that about one-fourth of the government's payments were made early, thereby costing the federal government millions of dollars in interest income. Section 3 of S. 1381, in conjunction with the Prompt Payment Act, provides the necessary incentives for agencies to pay their bills on time--neither early nor late.

We offer one technical suggestion. The subcommittee may wish to specify in section 3 of S. 1381 that any interest penalties assessed by Treasury should be paid out of appropriations available for agency operations where possible and therefore not reduce amounts available to fund programs. We understand that a reduction of available program funds has been a concern of the states.

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[2]S. 328, a bill to amend the Prompt Payment Act (GAO/T-AFMD-87-3, March 19, 1987).

[3]Prompt Payment Act: Agencies Have Not Fully Achieved Available Benefits (GAO/AFMD-86-69, August 28, 1986).

NATIONAL LOCKBOX SYSTEMS

Finally, we support section 5, which addresses the improved collection and deposit of government receipts through lockbox systems. Federal receipts are sent to a post office box, processed, and credited to the government's account, thus eliminating deposit delays.

This bill recognizes that a comprehensive study needs to be performed before requiring federal agencies to use lockbox arrangements and calls for Treasury to analyze the feasibility and costs of operating lockbox systems through Treasury, the Federal Reserve, or other appropriate federal agencies.

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Mr. Chairman, this concludes my remarks. We fully support S. 1381 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.