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The Federal Government's voluntary payroll deduction or allotment program permits military and civilian personnel to take care of personal and financial responsibilities by authorizing the Government to withhold money from their pay and send it directly to designated recipients, including dependents, charitable organizations, financial institutions, and insurance companies. Findings/Conclusions: The Government charges financial institutions for handling the allotments of civilian employees who work in the United States, but it does not charge them for military allotments or for allotments of civilians who work overseas even though the benefits to the institutions are identical. Under the present system, the Government does not recover from financial institutions the full costs of processing allotments of civilians, as intended by law, because the rates are outdated. As a result, the Government does not recover any portion of the \$5.6 million spent annually to process military and overseas allotments and recovers only about half of the \$2.6 million for allotments of U.S. civilians. There is a basic disagreement among the Office of Management and Budget, the Department of Defense, and the Department of the Treasury on the need to charge financial institutions for the administrative costs of handling payroll allotments for military personnel and overseas civilians. Recommendations: The Congress should consider whether the allotment program, as presently administered, is meeting its expectations and could consider the following options when deciding what, if any, changes need to be made: drop the existing charges for civilian allotments, charge

financial institutions for the current costs of all allotments, distribute the current costs for all allotments between the Government and financial institutions and insurance companies, or make no change in existing legislation. (RRS)

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BY THE COMPTROLLER GENERAL

7867

# Report To The Congress

## OF THE UNITED STATES

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### The Payroll Allotment Program Needs A Second Look

The Federal Government's payroll allotment program permits military and civilian employees to have money withheld from their pay and sent directly to banks, credit unions, savings and loan associations, and other organizations. Although the benefits to financial institutions are identical, the Government only charges these institutions for processing allotments of civilian employees working in the United States. The Government does not charge the same or similar organizations to handle military allotments or allotments of civilians working overseas. Also, it does not recover from financial institutions the full costs of processing allotments of U.S. civilians as intended by law because the rates are outdated.

The Congress should consider whether the present allotment program is meeting its expectations. This report identifies several options which the Congress could explore in deciding what, if any, changes should be made.





COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-141025

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

This report discusses the need for the Congress to take another look at the Government's payroll allotment program which permits military and civilian personnel to have money withheld from their pay and sent directly to financial institutions and insurance companies.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Secretary of Defense.

  
ACTING Comptroller General  
of the United States

D I G E S T

Under the voluntary Federal allotment program which permits military and civilian personnel to have money withheld from their pay and sent directly to designated organizations, the Government charges financial institutions for processing allotments for civilians working in the United States but does not charge for processing military allotments or allotments of overseas civilian employees. However, the benefits to financial institutions are identical.

The law states that Government agencies will charge financial institutions for processing payroll allotments for civilian employees. However, it does not cover military personnel and has been interpreted by the Treasury Department as not applying to civilian employees working overseas. With respect to military personnel and civilians working overseas, it appears that fees for allotments could be charged under the User Charge Statute. This statute provides Federal agencies with the authority to prescribe a fair and equitable charge for services the agencies may provide to or for any person.

As a result of these procedures, the Government does not recover any portion of the \$5.6 million spent annually to process allotments for military personnel or civilians overseas and recovers only about half of the \$2.6 million to process allotments of U.S. civilians.

These conditions exist because:

- Military allotments have been around since the late 1800s and consideration may not have been given to benefits that the allotment services provide financial institutions through the advent of modern technology.
- Regulations issued in 1958 did not cover civilians working overseas. They had been

permitted to make payroll allotments at no cost to the recipient financial institutions under previous regulations.

--The rates charged to financial institutions have not been revised since 1968 to adjust for increased costs.

The allotment program benefits the employee, the Government, and the financial institution. The program was legislatively approved for civilians after testimony that financial institutions were willing to pay the full cost of the program. However, financial institutions now indicate they may not favor continuing the program if they have to pay higher costs. If this is true, perhaps the desirability of continuing the program, at least in its present state, should be reconsidered.

If the allotment program is to be continued, GAO believes charges for military and overseas civilian allotments should be considered because the benefits are basically the same. Also, the rates need to be updated.

#### AGENCY COMMENTS

A basic disagreement exists among the Office of Management and Budget, the Department of Defense, and the Department of the Treasury as to whether the Government can and should charge financial institutions for the administrative costs of handling military allotments. Also, whether the Government should continue to charge these institutions for processing civilian allotments has been questioned. (See ch. 3.) The Department of the Treasury agreed that the rates currently charged should be revised and was in the process of redetermining what the new rates should be. Treasury also agreed to re-evaluate the rates annually.

#### RECOMMENDATION TO THE CONGRESS

The Congress should consider whether the allotment program, as presently administered by Federal agencies, is meeting its expectations. It could explore the following options in deciding what, if any, changes should be made.

- Drop the existing charges for civilian allotments.
- Charge financial institutions for the current costs of all allotments.
- Distribute the current costs for all allotments between the Government and the financial institutions and insurance companies.
- Make no change in existing legislation.

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## CHAPTER 1

### INTRODUCTION

The voluntary payroll deduction or allotment program permits Federal personnel to take care of personal and financial responsibilities by authorizing the Government to withhold money from their pay and send it directly to designated recipients. These recipients include the Federal Government, dependents, charitable organizations, financial institutions (such as commercial banks, savings and loan associations, and credit unions), and insurance companies. Allotments sent to financial institutions may be for deposits or loan repayments, while allotments sent to insurance companies are for premium payments. 1/ Allotments for military and civilian personnel are authorized under different statutes.

#### AUTHORIZATION FOR MILITARY ALLOTMENTS

In 1889 the Congress authorized military personnel to have deductions withheld from their pay and sent directly to another person or organization. Over the years most of the original statutes covering this program have been revised, but the basic program has been retained and expanded. Today, active and retired military personnel are authorized by 37 U.S.C. 701-704 to make allotments, without charge, to banking institutions and insurance companies.

#### AUTHORIZATION FOR CIVILIAN ALLOTMENTS

Although military personnel have been authorized allotments for many years, Public Law 87-304 (5 U.S.C. 5525), enacted in 1961, authorized the Civil Service Commission to extend allotment privileges to include all Federal civilian employees. But the Commission limited the type of allotments Federal agencies could authorize for civilian employees working in the United States. For example, an agency could process payroll deductions for civilian employees working in the United States but these were limited to union dues, charitable contributions, and taxes. Only labor unions were charged for this service. On the other hand, the Commission allowed civilian employees working overseas, including those working in Alaska and Hawaii, to have allotments without requiring reimbursement from institutions.

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1/Military personnel and civilians working overseas may have allotments sent to both financial institutions and insurance companies. Civilians working in the United States can have allotments sent to financial institutions only.

In 1965 the payroll allotment program was expanded by Public Law 89-145 (31 U.S.C. 492(b)). This law authorized the Secretary of the Treasury to broaden the regulations so that agency heads, at their discretion, could authorize employees to have allotments sent to financial institutions. Under this authority, the employee could request that his net pay (after all payroll deductions) be sent to a designated financial organization for credit to his checking account. Neither this act nor Public Law 87-304 required the Government to charge either the financial institution or the employee for such services.

In June 1968 Public Law 90-365, amending 31 U.S.C. 492(b), further expanded the agencies' authority to make allotments. Under this law, Federal employees were authorized to request their agencies to send up to two payroll allotments to financial institutions in addition to their regular pay check, which could be forwarded without charge. 1/ Also, this law requires the Government to recover, from the receiving financial institutions, the administrative costs for processing these additional payroll deductions. This legislation does not require charges for military personnel, and the Department of the Treasury regulations exclude civilian employees overseas from charges. 2/

#### PURPOSE OF ALLOTMENT CHARGES

In enacting Public Law 90-365, the Congress considered the burden that an expanded allotment program might place on Federal payroll operations. The legislative history clearly shows that the Congress did not intend for the Government to incur any additional costs for sending payroll allotments to financial institutions. The report of the Senate Committee on Banking and Currency 3/ stated:

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- 1/The regular paycheck is forwarded without charge because it is considered to be an entitlement of the employee, whereas additional amounts which the employee authorizes to be sent to financial institutions are special services.
- 2/The scope of this report does not include consideration of the basis for not recovering costs for civilian employees overseas. The amount involved is less than 1 percent of the total expenditures for military and overseas allotments.
- 3/S. Rept. 1228, 90th Cong., 2d sess. 3 (1968).

"The committee also recognizes the argument that additional deductions complicate Federal payroll operations. However, in view of the benefits to be derived by encouraging saving, and in view of the computerized nature of most Federal payroll systems, and in view of the fact that the Government would be reimbursed for the additional cost of providing the deductions, the committee feels the bill would not represent any significant burden on the Federal Government.

"With respect to cost, the committee understands the Civil Service Commission has already established a standard service charge of 2 cents per individual deduction exclusive of any postage cost. The committee expects such a charge should be adequate to cover all additional costs associated with payroll saving deductions authorized under the bill."

The House Committee on Banking and Currency stated in its report 1/ that

"The Treasury Department is also concerned with the costs involved in administering H.R. 6157. It must be clearly noted and understood that passage of this legislation would not involve any cost to the Government, since credit unions would reimburse the Government for the reasonable cost of making such allotments.

"The Civil Service Commission has already established a standard service charge of 2 cents per individual deduction, exclusive of any postage cost, for payroll deductions authorized under present law. The Treasury Department, however, points out that these deductions are not of a fluctuating nature, in that the amount of the deduction and the agency or organization receiving the deduction are not changed on a frequent basis. The Treasury Department further indicated in its appearance before your committee that the 2 cent charge might not be enough to handle the credit union deductions if it developed that payroll deductions were constantly being increased, decreased, or otherwise changed.

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1/H. Rept. 893, 90th Cong., 1st sess. 3 (1967).

"Representatives of [Credit Union National Association] CUNA International testified before your committee that they would be willing to pay the administering costs of the allotments regardless of the amount. Your committee expects that before a per item charge is established, a complete study will be undertaken and that once such charges are established, they will be uniform for all payroll deductions and will not be discriminatory. Your committee does not feel it would be equitable to include the cost of allotment changes in a per item charge unless it was clearly shown that a number of allotment deduction changes were anticipated." 1/

In authorizing the civilian allotments and requiring that financial institutions be charged for these services, the Congress recognized that these institutions receive benefits from the program. Some of the benefits we were able to identify are (1) reduced workload when one check is received for deposit to the accounts of several thousand employees, (2) compatible computer input data from the Government's computerized payroll systems, (3) reduction in periodic processing of payment notices, and (4) less problems with bad personal checks and late payments.

APPLICABILITY OF GOVERNMENT'S  
USER CHARGE POLICY TO ALLOTMENT PROGRAM

Although there is no specific statutory requirement for charging fees for the administrative costs of processing allotments for military personnel and the Department of the Treasury has interpreted 31 U.S.C. 492(b) as not applying to civilians working overseas, it appears that such fees could be charged under the User Charge Statute (31 U.S.C. 483a). This statute authorizes Federal agencies to prescribe a fee, charge, or price for services the agencies may provide to or for any person (including groups, associations, organizations, partnerships, corporations, or businesses) in which the fee is determined to be fair and equitable, taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interest served, and other pertinent facts. When a program provides benefits to multiple beneficiaries, charges should be allocated equitably among the beneficiaries.

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1/H. Rept. 6157 initially applied to Federal credit unions only. The bill was amended to include all depository-type financial institutions.

Instructions to executive agencies for implementing this Government policy are contained in Office of Management and Budget Circular A-25. This circular states that where a Government service provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Government of rendering that service.

#### HOW THE ALLOTMENT PROGRAM WORKS

As shown on pages 1 and 2, different laws allow military and civilian personnel to request their agencies to send portions of their pay to financial institutions. These allotments may be sent to the receiving institutions by individual or composite checks. Where more than one employee in the same agency elects to make an allotment to the same recipient, the agency generally will send a single or consolidated Treasury check to the institution. This procedure cuts down on the number of individual checks from one agency to the same financial institution.

Under Department of the Treasury regulations, Government agencies charge the financial institutions for processing allotments of their civilian employees working in the United States. In November 1968 the Department of the Treasury established standard charges which are still in use today. These are: 6 cents for each payroll deduction to cover administrative and payroll costs, and 12 cents for each check regardless of the number of deductions covered by the check. The 12-cent charge is to recover the cost of the check, preparation for mailing, and postage. For example, a single blanket check to one financial institution covering 100 payroll deductions for allotments requires a service charge of \$6.12--6 cents for each of the 100 allotments and 12 cents for the blanket check. The blanket check is made out "net" of the service charge, and the financial institutions credit the full amount to the depositors' accounts. The difference or service charge is a cost to the institution.

## CHAPTER 2

### PRESENT ALLOTMENT SYSTEM IS INCONSISTENT

#### AND DOES NOT RECOVER COSTS

The Government charges financial institutions for handling allotments of civilian employees working in the United States but does not charge them for military allotments or allotments of civilians working overseas, although the benefits to the institutions are identical. In addition, under the present system, the Government does not recover from financial institutions the full costs of processing allotments of U.S. civilians, as intended by law, because the rates are outdated.

As a result of these procedures, the Government does not recover any portion of the \$5.6 million spent annually to process military and overseas allotments, and recovers only about half of the \$2.6 million for allotments of U.S. civilians.

These conditions exist because:

- Military allotments have been around since the late 1800s and consideration may not have been given to the benefits allotment services provide financial institutions through the advent of modern technology.
- Overseas civilians have been permitted, under previous Government regulations issued before 1968, to request payroll allotments at no cost to the financial institutions and are still being permitted to do so under existing regulations.
- Treasury has not revised the rates for U.S. civilian allotments since 1968.

#### PRESENT SYSTEM NOT CONSISTENT

The Government charges financial institutions for processing allotments of civilian employees working in the United States. It does not, however, charge the same or similar institutions for military allotments or allotments of civilians overseas even though the benefits are identical.

As discussed in chapter 1, legislation enacted in 1968 authorized allotments for civilian employees and required the recipient financial institutions to pay for the Government's handling costs. This legislation, however, does not cover military personnel and has been interpreted by the Department of the Treasury as not applying to civilians working abroad.

#### Costs of civilian allotments partially recovered

Each pay period, civil and defense agencies send to financial institutions about 600,000 allotments of civilians working in the United States.

In 1976 the Government spent about \$2.6 million to process these allotments. As required by the 1968 law, the responsible agencies, using the 1968 rates set by Treasury, charged the financial institutions \$1.3 million for this service or about one-half of the agencies' processing costs.

The Government also spent almost \$50,000 in 1976 to forward allotments to financial institutions and insurance companies for civilian employees working overseas. No service charges were imposed for these allotments although, in some instances, the same financial institution also received checks for accounts of civilians working in the United States for which a service charge was made.

Treasury regulations, issued in 1968 implementing Public Law 90-365, did not cover civilians working overseas. As discussed on pages 1 and 2, these individuals had been permitted to make payroll deductions at no cost to the recipient financial institutions under regulations issued by the Commission in connection with Public Law 87-304. Accordingly, financial institutions were not charged a fee for the Government's cost of handling these payroll deductions under the earlier law. Treasury's regulations under Public Law 90-365 maintain the status quo.

#### Military allotments processed without charge

Department of Defense agencies spent about \$5.6 million in 1976 to collect and forward military allotments to financial institutions and insurance companies. In the absence of specific legislation, defense agencies did not charge financial institutions and insurance companies for any of these costs.

The total allotments authorized for both active and retired military personnel at December 31, 1976, numbered about 5.6 million, of which 3.2 million, or 58 percent, were sent to financial institutions and insurance companies. The annual dollar value of allotments sent to financial institutions and insurance companies is about \$2.2 billion.

We were unable to determine why charges to financial institutions were never extended to military allotments. As shown in chapter 1, allotments for U.S. civilians did not exist until 1968, and it is clear that the Congress intended for the program to be self-supporting through charges to the financial institutions. On the other hand, military allotments have been in existence since 1889, and it is possible that consideration has never been given to the benefits that the allotment program, with the help of modern technology, affords financial institutions.

The Department, in commenting on the matters discussed in this report, stated:

⊕ " \* \* \* allotments were authorized by the Congress, without charge, for the express purpose of assisting the military members to accommodate the exigencies of military service to the accomplishment of their personal and family responsibilities, thereby contributing to the maintenance of a more effective military force. The same exigencies (unpredictable rapid relocation, assignment to war zones, etc.) that existed when such allotments were first authorized exist today. Accordingly, we believe that it was the intent of the Congress to provide this "benefit" to the military member and to the Department of Defense without passing the cost on to the member or a third party."

On the other hand, an Air Force staff study of its allotment programs stated:

"The voluntary allotment privilege while provided originally as a necessary service to military personnel on distant duty, in overseas theatres or combat zones, has been extended

far beyond this original intent resulting in the expenditure of appropriated funds of significant amounts for maintenance and operation of the system. \* \* \* Overall cost of the AF (Air Force) allotment program will approximate \$2,030,518 in 1976, and \$11,209,244 through 1980. \* \* \* Applied DOD-wide, total costs of the allotment program could exceed \$30,000,000 over the next five years."

The Air Force study further stated:

"Under the all-volunteer forces concept, active duty members should be capable of managing their own finances. This concept should apply even more to retired personnel, since unlike active duty personnel, they choose their residences.

"Where the member is in a position to provide for himself, he, therefore, should be expected to do so. The use of the voluntary allotment procedures solely for the convenience of the member could be viewed as an unjustifiable expenditure of public funds."

#### Benefits of civilian and military allotments are the same

The payroll allotment program provides significant, identifiable benefits to financial institutions and insurance companies. These benefits are essentially the same, regardless of whether the allotments are for military personnel or civilians working in the United States or abroad.

Financial firms frequently receive single checks representing deposits from thousands of military personnel. The same is true for civilian allotments from civil and defense agencies.

Military finance centers generally prepare payroll deduction data in standard computer format which simplifies processing, particularly for the large institutions or companies receiving the data. Several civil and defense agencies also send civilian allotment data in standard computer format, to the same or similar institutions.

Another group of beneficiaries are insurance companies, which receive large numbers of allotments for military personnel and civilians working overseas. Although these companies are not charged for allotment services, they receive many of the same kinds of benefits that financial institutions receive from allotments of civilians working in the United States. For example, in most cases they do not have to process individual monthly premium payments and thus do not have to be concerned with premium notices, bad personal checks, or late payments.

To gain further insight into how institutions benefit from the allotment program and the similarities involved, we reviewed procedures for processing allotments at two credit unions and one bank. Our comments follow.

--A credit union had about 230,000 accounts, about one-third of these accounts were for servicemen, and all were savings accounts. The allotments were received monthly for servicemen and biweekly for civilians, and the checks were accompanied by a transmittal slip and either a computer list or punched cards for allottees. The cards were then processed through the computer system to update the individual's account and the individual was notified quarterly of transactions processed against the account.

--A bank received about 1,500 allotments each month. The checks for these allotments were accompanied by a list of the individuals making the allotments. This data was input into the bank's computer system and the bank staff did not have to handle these deposits over the counter during a peak period on payday.

--A credit union received about 1,900 civilian allotments each month. The checks for these allotments were accompanied by a list of the individuals making the allotments. The data from the list was input into the computer system by a contractor at a cost of about 4.5 cents per transaction. This was cheaper than the contractor's charge for processing over the counter deposits which was about 13 cents per transaction.

PRESENT SYSTEM DOES NOT RECOVER  
ALL COSTS OF CIVILIAN ALLOTMENTS

The Government is losing about \$1.3 million each year because the rates charged for administering payroll allotments for civilians working in the United States are inadequate to recover costs. This loss in collections is occurring because the rates charged financial institutions for services provided have not been revised to adjust for increased costs since 1968.

During fiscal year 1976, the Treasury Department reported that all Government agencies collected \$1.3 million for administering civilian allotments under Public Law 90-365. This money was collected using the standard rates established in 1968 which are intended to recover the costs of administering civilian allotments. These standard charges are: 6 cents for each allotment deduction to cover administrative and payroll costs, and 12 cents for each check regardless of the number of allotments covered by the check. The 12-cent charge is to recover the cost of the check, including preparation for mailing and postage. The financial institution receiving the payroll deduction is assessed the service charge.

The only review of reimbursable rates that the Treasury Department has made since they were first established in 1968 was started in November 1976, 8 years later. A Treasury official stated in April 1978 that the review is not complete, but preliminary indications are that the actual costs are probably double the existing rates. Apparently this increase is not unreasonable because two of the primary cost factors--wages and postage--have increased significantly since 1968. For example, postage has increased 117 percent since 1968.

## CHAPTER 3

### SHOULD THE ALLOTMENT PROGRAM

#### BE CONTINUED UNDER THE PRESENT ARRANGEMENT?

The preceding chapters establish that the Government's payroll allotment program is not administered consistently. On the one hand, financial institutions are required to pay a fee to Government agencies when they receive allotments of civilians working in the United States. The same or similar institutions are not charged for allotments of military personnel or civilians working abroad. As far as we could tell, the benefits to the financial institutions do not differ, regardless of whether the allotments are for military personnel or civilians working in the United States or abroad.

Our report also shows that Government agencies are not recovering all costs of civilian allotments sent to financial institutions, even though the Congress authorized the program with the intent that it would not create any additional costs to the Government.

#### AGENCY COMMENTS

During our review we obtained comments from the Office of Management and Budget, the Department of Defense, and the Department of the Treasury on the need to charge financial institutions for the administrative costs of handling allotments for military personnel and civilians overseas and on the need to revise the rates for administering civilian allotments. Their written comments are included as appendixes I through III. Several trade associations representing financial institutions and insurance companies also provided comments on these matters. (See app. IV.)

These comments revealed a basic disagreement among the agencies as to whether the Government can and should charge financial institutions for the administrative costs of handling military allotments. Also, whether the Government should continue to charge these institutions for processing civilian allotments was questioned. These comments and our evaluation are discussed below, where appropriate.

Should charges be made for military and overseas civilian allotments?

The Office of Management and Budget believes that the Government's administrative costs of the payroll allotment program, including those allotments for military personnel and civilians overseas, should be assessed on an equitable basis in accordance with Circular A-25. In recognition of a recent Supreme Court decision interpreting the User Charge Statute, 1/ however, the Office expressed reservations concerning the proper allocation of such charges among the beneficiaries of the program. 2/ According to the Office, the Federal employee as well as the financial institution receives special benefits from the payroll allotment program and, therefore, the administrative costs of the program should be allocated equitably.

On the other hand, the Department of Defense said that allotments were authorized by the Congress, without charge, because of the exigencies of military service and that these exigencies (unpredictable rapid relocation, assignment to war zones, etc.) still exist today. The Department believes that the Congress intended this service to be a benefit to both military personnel and the Department, without passing the service's cost on either to these personnel or to a third party (i.e., financial institutions and insurance companies).

The Treasury Department believes the User Charge Statute, as implemented by Circular A-25, does not provide it with the authority to charge financial institutions and insurance companies for the Government's administrative costs for processing allotments of civilians working overseas. The Treasury Department stated that the recovery of these administrative costs comes under Civil Service Commission regulations and that the Treasury has been operating under the specific authority of 31 U.S.C. 492 (b), which,

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1/National Cable Television Association v. United States  
415 U.S. 336 (1974).

2/We discussed the Supreme Court decision and its effect on the application of the User Charge Statute in detail in our report entitled "Establishing a Proper Fee Schedule under the Independent Offices Appropriation Act, 1952," CED-77-70, May 6, 1977.

in the opinion of the Department of the Treasury, prescribes specific provisions for cost reimbursements for a limited class of allotments (i.e., the allotments of civilian employees working in the United States).

The trade associations believed that the User Charge Statute and Circular A-25 do not require charges for allotment programs and stated that specific statutory language is required to assess such charges. They also said that the direct and intermediate beneficiaries of the program are the Federal Government as an employer, the general economy, and the allottee, not the financial institution. The trade associations compared the Government program to private industry, which considers the allotment service to be a fringe benefit and therefore provides this service without charge.

Both the Department of Defense and the trade associations indicated that the existing allotment programs may have to be reduced or eliminated if the Government is required to recover all costs for administering this program.

#### Our evaluation

As shown above, the Office of Management and Budget concluded that the costs of military and overseas civilian allotments should be recovered in accordance with Circular A-25. As noted on page 4, it appears that the Government does have authority under Circular A-25 to recover such costs. However, we recognize that certain complications may arise in allocating the charges among the allotment program beneficiaries.

With respect to Defense's view that the Congress intended allotment services to benefit both military personnel and the Defense Department, the Office of Management and Budget stated (see page 20) that there is no apparent justification for this continued free service, the costs of which, by law, must be recovered without regard to type of employment service. Also, as noted earlier, an internal Air Force study concluded that the allotment privilege has been extended beyond the original intent.

As to the possibility that existing allotment services may be reduced if all costs are to be recovered, the Office of Management and Budget stated that the purpose of the user charge policy is to require that agencies identify

those programs that are of benefit to a limited population and determine through user charges whether the beneficiaries are willing to pay the cost of the services they receive free, or pay very low fees. Most agencies apparently consider user charges a threat to the existence of such programs. The Office of Management and Budget believes that user charges are one tool of program evaluation, helping to determine the value of a program to its beneficiaries and to distribute the costs of these special services to those recipients, not the taxpayer.

Should charges be continued  
for U.S. civilian allotments?

The Treasury Department officials felt that 31 U.S.C. 492 (b) should be reexamined in the light of current circumstances, to determine if such charges are warranted. They believe that important public policy issues are at stake and that a flat fee assessed to the receiving financial organization is not equitable, because the Federal Government itself and its employees also benefit.

The trade associations said that the Treasury Department's efforts to convert Government payment systems to direct deposit should be considered. Accordingly, they stated that implementation of the Direct Deposit Program 1/ may suggest to the Treasury the desire to recommend a repeal of the statutory requirement under Public Law 90-365 to charge for allotment services.

Our evaluation

In authorizing the allotment program for civilian employees in 1968, the Congress acknowledged that the employee and the Federal Government as an employer would benefit from allotment services. However, as discussed on page 2, the Congress made clear its intentions that the Government be reimbursed for any additional costs of providing the services. Furthermore, credit union representatives testified that they would be willing to pay the administering costs of the allotments regardless of amount.

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1/Under this program the Government deposits funds directly into payees accounts with financial institutions.

We recognize that the Direct Deposit Program is currently being emphasized by the Treasury Department. Also, Treasury officials stated that some financial institutions have difficulty distinguishing between the two programs. However, the allotment program is separate and distinct from the Direct Deposit Program, and introducing additional charges for the allotment program should not affect the implementation of the Direct Deposit Program.

#### Need to revise rates for civilian allotments

The Department of the Treasury agreed that the rates currently charged for administering payroll allotments should be revised and that it was redetermining the rates when our audit was initiated. Treasury also agreed to evaluate the rates annually.

#### CONCLUSIONS

Several issues surround the Government's present system of sending employee allotments to financial institutions and insurance companies. A basic disagreement exists among the principal agencies as to whether the Government should recover its costs to send military personnel and overseas civilian allotments to such organizations. Also at issue is whether the Government should continue to charge for U.S. civilian allotments.

The allotment program seems of value to the employee, the Federal Government as an employer, and the financial organizations. When the Congress authorized civilian allotments in 1968, it intended that the Government recover its handling costs from the receiving financial institutions. Although this was acceptable to the financial institutions at that time, they now indicate that they may not favor continuing the program if they have to pay higher fees. If this is true, the desirability of continuing the program, at least in its present state, should be reconsidered.

If the allotment program is to be continued, we believe that charges for military and overseas civilian allotments should be considered because the benefits are basically the same. Also, the rates need to be updated.

## RECOMMENDATION TO THE CONGRESS

The Congress should consider whether the allotment program, as presently administered by Federal agencies, is meeting its expectations. The Congress could explore the following options in deciding what, if any, changes should be made.

- Drop the existing charges for civilian allotments.
- Charge financial institutions for the current costs of all allotments.
- Distribute the current costs for all allotments between the Government and the financial institutions and insurance companies.
- Make no change in existing legislation.

## CHAPTER 4

### SCOPE OF REVIEW

We reviewed the legislative history of military and civilian payroll allotments and the policies and procedures used by Government agencies to charge for this service. We also reviewed the records and reports of military payroll allotments of U.S. civilians working in the United States and overseas.

To obtain data on the number, dollar value, and types of allotments, we made our review at

- the Army Finance Center, Indianapolis, Indiana;
- the Navy Finance Center, Cleveland, Ohio;
- the Air Force Finance Center, Denver, Colorado;
- the Marine Corps Finance Center, Kansas City, Missouri; and
- the Department of State, Washington Finance Center, Washington, D.C.

We also discussed the need to assess charges for administering payroll allotments with the above activities as well as financial institutions, national associations for banks, credit unions, and insurance companies, the Office of Management and Budget, and the Department of the Treasury.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

MAR 27 1978

Mr. D. L. Scantlebury  
Director, Division of Financial and  
General Management Studies  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Scantlebury:

This letter provides Office of Management and Budget (OMB) comments on the General Accounting Office (GAO) draft report, "Cost of Administering Payroll Allotments not Fully Recovered from Financial Institutions and Insurance Companies," dated December 22, 1977. This response was necessarily delayed due to preparation of the 1979 budget.

The draft report indicates that costs of the payroll allotment program are not being fully recovered -- as required by policies contained in OMB Circular A-25 -- and that charges for these services are not being assessed on an equitable basis. We concur with the draft report's general recommendations for Treasury and Department of Defense actions necessary to remedy the apparent oversights, with one reservation.

- Throughout the report, it is assumed that the financial institution or insurance company is the sole beneficiary of payroll allotment services and, therefore, should be assessed a fee to recover the full cost of the service. While many of the financial benefits of these services -- such as timely and assured payment and savings in administrative costs -- can be readily assigned to the financial institution or insurance company, the Federal employee receives many incalculable benefits, too -- such as not having to worry about payment dates and maintenance of a good credit rating.

Since these allotment services come under general guidance of OMB Circular A-25, the Treasury and the Department of Defense must incorporate the effects of recent Supreme Court decisions affecting the statutory authority for user charges. Decision 72-948, decided in March of 1974.

required agencies to determine what portion of their service benefited the general public and then adjust the user fee to recover that portion of the service that was a direct benefit to the recipient. In the payroll allotment program, the Federal employee, as well as the financial institution or insurance company, receives benefits. While the general public probably does not receive direct benefits from the allotment program, the fact that both the employee and the financial institution or insurance company benefit would seem to require that the costs from payroll allotment services be recovered from both parties. In addition, the GAO points out in their reference to OMB Circular A-25 that a charge should be made to the person or institution requesting the service. In the payroll allotment program, the employee -- not the financial institution or insurance company -- requests the service.

While the 1968 statute (P.L. 90-365) requires that the financial institution or insurance company be charged for the allotment services, OMB does not believe that the increased charges can be totally passed on to the financial institutions or insurance companies under the user charge statute; to do so would be inconsistent with current Supreme Court rulings.

The GAO report should discuss the impact of the Supreme Court's decision on cost recovery of the payroll allotment program. The GAO should also explain why, as GAO currently recommends, the financial institutions and insurance companies should bear the full cost of this program.

With the above reservation in mind, OMB endorses the GAO recommendations to increase fees for the payroll allotment program to reflect the true costs of the program. Secondly, OMB concurs with the GAO that the Department of Defense should recover the costs of the payroll allotment service. There is no apparent justification for the continued free service, the costs of which, by law, must be recovered without regard to type of employment service. Lastly, OMB concurs that the Treasury must end the preferential treatment of overseas personnel payroll allotments. Again, there is no apparent justification for this preferential treatment since the authorizing law makes no distinction as to place of employment.

We appreciate the opportunity to comment on your draft report and eagerly await the final report and any remedial actions recommended.

Sincerely,

A handwritten signature in black ink, appearing to read "James T. McIntyre, Jr.", written in a cursive style.

James T. McIntyre, Jr.  
Acting Director



OFFICE OF THE COMMISSIONER  
IN REPLYING QUOTE:

DEPARTMENT OF THE TREASURY  
FISCAL SERVICE  
BUREAU OF GOVERNMENT FINANCIAL OPERATIONS  
WASHINGTON, D.C. 20226

AS:ALL-3:AMB

February 27, 1978

Mr. D. L. Scantlebury  
Director, Division of Financial  
and General Management Studies  
General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Scantlebury:

We appreciate the opportunity to comment on the draft audit report titled "Cost of Administering Payroll Allotments not Fully Recovered from Financial Institutions and Insurance Companies."

We agree that the rates currently charged for administering payroll allotments under Treasury Department Circular 1076 should be revised. As you know, the Treasury was in the process of redetermining the rates when your audit was initiated. Also, we agree with your recommendation that we evaluate the rates annually.

We believe that the recovery of administrative costs from financial organizations and insurance companies which receive allotments for U.S. civilians overseas falls under regulations of the Civil Service Commission. Accordingly, we do not feel that the provisions of OMB Circular A-25 provide us with the authority for assessing such charges. Treasury has been operating under the specific authority of Public Law 90-365, which prescribes specific provisions for cost reimbursement for a limited class of allotments.

Although we recognize the purpose of this audit was to determine compliance with applicable legislation regarding the recovery of costs of administering payroll allotments, we believe there are much more important public policy issues at stake. A flat fee assessed to the receiving financial organization does not represent an equitable recovery of these costs, given that the Federal Government itself and its employees are also primary beneficiaries of such programs. It is our position that PL 90-365 should be re-examined in the light of current circumstances to determine if such charges are warranted. We would like to discuss this further with you.

Sincerely yours,

  
D. A. Pagliai  
Commissioner



*Keep Freedom in Your Future With U.S. Savings Bonds*



COMPTROLLER

**ASSISTANT SECRETARY OF DEFENSE**  
 WASHINGTON, D.C. 20301

31 MAR 1978

Mr. Donald L. Scantlebury  
 Director, Division of Financial  
 and General Management Studies  
 U.S. General Accounting Office  
 Washington, D.C. 20548

Dear Mr. Scantlebury:

This is in reply to your letter to the Secretary of Defense, dated December 22, 1977, regarding your draft report on "Cost of Administering Payroll Allotments not Fully Recovered from Financial Institutions and Insurance Companies" (OSD Case #4784) (FGMSD-77-61).

In the draft report, it is recommended that "The Secretary of Defense charge financial institutions and insurance companies for the cost of handling payroll deductions forwarded to them for active and retired military personnel." We do not concur in this recommendation for the reasons shown below.

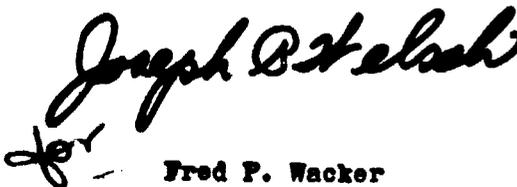
Your recommendation is predicated on the assumption that the general policy of charging fees for special services as expressed in Title V of the Independent Offices Appropriation Act of 1952 (31 U.S.C. 483a), as implemented by OMB Circular A-25, requires full recovery of the cost of providing allotments of military pay. We do not agree with your assumption because such allotments were authorized by the Congress, without charge, for the express purpose of assisting the military members to accommodate the exigencies of military service to the accomplishment of their personal and family responsibilities, thereby contributing to the maintenance of a more effective military force. The same exigencies (unpredictable rapid relocation, assignment to war zones, etc.) that existed when such allotments were first authorized exist today. Accordingly, we believe that it was the intent of the Congress to provide this "benefit" to the military member and to the Department of Defense without passing the cost on to the member or a third party.

You recommend that a third party absorb the cost of providing a "benefit" to a military member and to the Government. These activities are now paying all of their own costs in handling the program. The insurance companies and financial institutions may well refuse or cancel allotments if it becomes uneconomical to process them.

The Government's costs, if passed on, would be absorbed by the financial institutions and insurance companies and would eventually be passed on to the customers of these activities. In effect then, the military members would be absorbing at least a portion of these costs, an occurrence not intended by the Congress. In addition, the other customers would have to absorb a share of the cost and receive no benefit at all.

In view of the above, we feel that your recommendation to pass on the cost of the allotments in question to a third party (and indirectly to the military member) is not well founded since it does not recognize that the benefitting activity is the DoD and U.S. Government. It should be withdrawn.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joseph P. Wacker". The signature is written in black ink and is positioned above the typed name.

Fred P. Wacker  
Assistant Secretary of Defense

**Defense Credit Union Council**

1730 RHODE ISLAND AVE. N.W. WASHINGTON, D.C. 20036 • 202-659-2360

February 23, 1978

Mr. D. L. Scantlebury, Director  
Division of Financial and General  
Management Studies  
U.S. General Accounting Office  
Washington, D. C. 20548

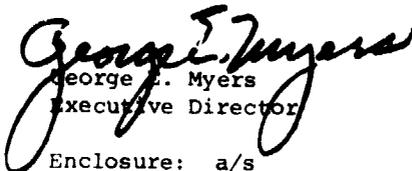
Dear Mr. Scantlebury:

Thank you for providing copies of your draft report on "Cost of Administering Payroll Allotments not Fully Recovered from Financial Institutions and Insurance Companies". The trade associations representing financial institutions and insurance companies appreciate the opportunity to submit the enclosed consolidated statement of their views on the draft report for your consideration along with government agency views.

We further request that the enclosed consolidated statement of interested financial institutions and insurance companies be attached to your final report as an addendum or exhibit.

The interested parties subscribing to the enclosed consolidated views regarding your draft report extend thanks for your consideration and cooperation.

Sincerely yours,

  
George F. Myers  
Executive Director

Enclosure: a/s

GEM/rem

CONSOLIDATED COMMENTS

ON THE DRAFT REPORT OF THE GENERAL ACCOUNTING OFFICE

REGARDING

"COST OF ADMINISTERING PAYROLL ALLOTMENTS NOT FULLY RECOVERED

FROM FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES"

The consolidated comments herein are submitted on behalf of the following organizations:

AMERICAN BANKERS ASSOCIATION

BY: *Rafael*

AMERICAN COUNCIL OF LIFE INSURANCE

BY: *R. L. W.*

ASSOCIATION OF MILITARY BANKERS O. . . . . CA

BY: *Jeffrey*

CREDIT UNION NATIONAL ASSOCIATION

BY: *Randy Moore*

DEFENSE CREDIT UNION COUNCIL

BY: *George E. Myers*

INDEPENDENT BANKERS ASSOCIATION OF AMERICA

BY: *John D. [unclear]*

NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

BY: *E. [unclear]*

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

BY: *Louis Nevins*

U.S. LEAGUE OF SAVINGS ASSOCIATIONS

BY: *Phil Gaster*

February 23, 1978

BACKGROUND

Early in 1977, representatives of the General Accounting Office (GAO) conferred with various organizations representing financial institutions and insurance companies to discuss a proposed GAO study on civilian and military allotments designed to recoup government costs for such programs.

This group of interested trade associations learned in January 1978 that the study had been completed and that a draft report was being circulated among government agencies for comment. At that time a request was made for copies of the report and permission to submit comments thereon.

GAO was unable to release the draft report (referred to as the "Report" hereafter) since it was restricted to official use. However, GAO representatives agreed to brief interested parties on the content of the Report. This was done on January 31, 1978.

At the briefing, GAO representatives took under consideration repeated requests by the trade groups for copies of the draft report so that its contents and recommendations could be analyzed and reviewed. GAO advised those in attendance at the January 31st meeting that a copy of the report would only be made available, if at all, on the condition that all groups wishing to reply submit their views in a consolidated paper.

On February 9, 1978, copies of the Report from GAO were received by George Myers, Executive Director of the Defense Credit Union Council, on behalf of all interested trade groups. The letter accompanying the report requested that a consolidated statement by interested parties be submitted to GAO by February 24, 1978.

SUMMARY OF GAO REPORT AND RECOMMENDATIONS

The Report criticizes the U.S. Treasury and Department of Defense (DOD) for not recovering from financial institutions and insurance companies the costs incurred annually in providing payroll allotment services. GAO states that, based on 1976 data, the government lost \$5.6 million in connection with military allotments because no charges were assessed, \$1.3 million in connection with domestic civilian allotments because charges assessed were inadequate, and \$50,000 in connection with overseas civilian allotments because no charges were assessed.

GAO contends that the payroll allotment program provides special benefits to financial institutions and insurance companies, and that the User Charge Act of 1952 and the implementing regulation of the Office of Management and Budget (OMB), Circular A-25, requires reimbursement to the Federal Government for the cost of providing allotments. The Report concludes that the Treasury and DOD should assure that all current costs incurred in both the civilian and military payroll allotment programs be

recouped from financial institutions and insurance companies, and that the Treasury should revise charges for civilian allotments annually.

THE USER CHARGE ACT AND OMB CIRCULAR A-25 DO NOT REQUIRE CHARGES FOR MILITARY AND CIVILIAN OVERSEAS ALLOTMENTS

GAO recommendations are grounded upon the conclusion that the User Charge Act of 1952 and the government directive which implements that Act, OMB Circular A-25, apply to the allotment programs. Therefore, according to the Report, charges should be assessed for military allotments and for civilian overseas allotments, and civilian domestic allotment charges should be reviewed and adjusted annually.

The Report reasons that all allotment programs are similar in nature, and therefore like civilian domestic allotments for which a charge is assessed, military and civilian overseas allotments should be subject to a charge. We generally agree that the military and civilian allotment programs are similar in nature, but it does not follow from that similarity that a charge should be assessed for military and civilian overseas allotments.

The standards described for assessing user charges under Circular A-25 are not adaptable to the payroll allotment programs. Circular A-25 provides in paragraph 2:

"...the provisions of the Circular cover all Federal activities which convey special benefits to recipients above and beyond those accruing to the public at large. The specific exclusions which continue to be governed by separate policies are fringe benefits for military personnel and civilian employees,..." (emphasis added).

And further in paragraph 3.a.(2), Circular A-25 provides:

"No charge should be made for services when the identification of the ultimate beneficiary is obscure and the service can be primarily considered as benefitting broadly the general public..."

Thus, before determining that allotment programs are governed by the User Charge Act and Circular A-25 consideration must be given to the nature of the benefit in question, the recipient of the benefit and whether the ultimate beneficiary is obscure, and finally, whether the benefit in question should be considered a fringe benefit.

The Report disregards all benefits of the payroll allotment programs, except those flowing to financial institutions and insurance companies. We believe the nature and recipient of benefits of allotment programs are succinctly described in the legislative history of P.L. 90-365:

"The committee believes that payroll deductions are an effective and efficient way of encouraging additional savings and will benefit our economy. The bill should facilitate the flow of funds to financial institutions, thereby easing credit conditions and removing some of the upward pressure on interest rates. To the extent the bill encourages greater thrift, it would remove funds

from the direct spending stream thereby helping to reduce inflationary pressures. Promoting greater saving can be a most effective and painless way of fighting inflation.

"The committee also believes that payroll deductions will benefit the Federal Government as an employer. Many progressive employers in business and industry have payroll savings plans and these have come to be recognized as a sound employment practice. The encouragement of regular saving assures a source of funds for employees to meet emergencies or to finance large purchases. This should result in fewer employees who overextend themselves and get into financial trouble. This in turn should lead to a more productive and stable work force and fewer complaints to the Federal Government from creditors concerning Federal employees in financial difficulty.

Finally, the committee believes the bill will benefit the Federal employee. It will make it easier and more convenient for the average employee to save on a regular basis. As previously mentioned, it will tend to assure a ready source of funds and reduce financial problems. It will particularly benefit employees of moderate income, who, when financial trouble strikes, are often forced to borrow at high interest rates." House Report No. 893, Banking and Currency Committee, November 7, 1967; Senate Report No. 1228, June 12, 1968.

With this background in mind, we suggest that among all the beneficiaries of payroll allotment programs, financial institutions and insurance companies are, at most, incidental or obscure beneficiaries. Moreover, as noted in the above legislative history, payroll deduction plans "have come to be recognized as a sound employment practice". This is, we suggest, tantamount to a fringe benefit. Therefore, even if the User Charge Act and Circular A-25 had any application to allotment programs, then the benefit should be offered without charge as a fringe benefit and for other reasons contained in Circular A-25.

THE USER CHARGE ACT AND CIRCULAR A-25 DO NOT APPLY TO ALLOTMENT PROGRAMS, MILITARY OR CIVILIAN

The basis for assessing a charge in connection with payroll allotments comes from the statute authorizing the allotment, rather than the User Charge Act and Circular A-25. In the case of the civilian allotments 31 U.S.C. 492 requires assessment of a charge against financial institutions to cover the cost of providing the service. Other statutory provisions authorizing allotments (5 U.S.C. 5525, and 37 U.S.C. 701 *et seq*) are silent on the matter of charges for allotment service, except in one instance. The exception involves National Guard allotments for the payment of certain group life insurance premiums sponsored by the State Military Department or the State Guard Association. Even in the case of this one exception, however, the charge assessed must (under the statute) be paid by the State or National Guard association concerned, rather than the insurance company. The statute provides that the allotment service will be provided "if the State or association concerned has agreed in writing to reimburse the United States for all

costs incurred by the United States in providing for such allotments", 37 U.S.C. 707.

The User Charge Act was enacted in 1952. Had it and Circular A-25 required assessment of charges for allotment service, a specific statutory requirement in 31 U.S.C. 492 and 37 U.S.C. 708 would have been entirely unnecessary, since both these statutes were enacted long after the User Charge Act, specifically 1968 and 1974. It is reasonable to assume, in accordance with principles of sound legislative interpretation, that costs are to be recouped in connection with allotment services only under the circumstances and in the manner expressly provided for in statute.

#### RATIONALE FOR COST-FREE MILITARY AND CIVILIAN OVERSEAS ALLOTMENTS

The allotment program for military personnel has been considered an essential morale factor since its inception. The availability of allotments mitigates against late or misrouted payments for support of dependents, mortgage, insurance policies and savings plans. Due to the nature of military service, the serviceman is subject to rotation, TDY, instant movement in national emergencies, assignment to isolated and remote duty stations and many other events normal to military life which make an allotment program an essential. The existence of the allotment program contributes to the freedom from financial worry under these unstable daily living conditions, thus providing a more effective and efficient member of the defense establishment.

With particular focus on the military allotment program, we note that approximately 60% of the DOD military force falls in the 17-25 age group. These individuals are the least mature financially and benefit substantially from the discipline and convenience provided by the allotment program. The allotment program provides painless discipline to these individuals in taking care of both their obligations and their thrift and savings needs. Moreover, the financial needs of these individuals are more readily met by financial institutions and at a lower cost because of the existence of an allotment program.

Many of these same considerations apply to civilians stationed overseas. These individuals are subject to emergency evacuation or transfer on short notice. Additionally, the allotment program for civilian overseas employees benefits the Federal government. It redirects dollar expenditures in foreign economies back into domestic institutions that would otherwise adversely affect the U.S. Balance of Payments.

#### ADJUSTMENT OF CHARGES FOR CIVILIAN DOMESTIC ALLOTMENTS

We would generally agree that under P.L. 90-365 the Treasury Department is authorized to review and adjust fees for the allotment program authorized therein. We take exception, however, to the suggestion in the Report that charges should at least double for this service.

We believe that any review of current charges should take into consideration economies and improvements in the government's payment system since the initial establishment of the 6% charge in 1968.

Indeed, it may develop that because of technological improvements since that time the original 6¢ charge should be lowered.

Further, any recommendation to review charges periodically for the purpose of adjusting those charges must take into consideration the cost to the government of making such a review. As noted by GAO in the Report on page 15, a primary cost factor to the government in any of its activities is wages. We suggest that the personnel costs associated with annual comprehensive reviews would be greater than the incremental increases brought about as a result of such reviews.

It is also important to consider that any charge in connection with allotment programs may be at cross purposes with a current major policy objective of the U.S. Government: namely, to make all federal recurring payments by electronic funds transfer through the U.S. Treasury Direct Deposit Program. The Government seeks the cooperation of financial institutions in implementing this program in order that Treasury may realize major savings in the operation of its payment system. With a movement toward complete automation of payments, any attempt to single out an individual payment item for recovery of costs may produce greater administrative burden than the effort is worth. Moreover, the introduction of new charges in connection with allotment programs would tend to discourage financial institutions in the implementation of government automated payment systems.

The Treasury Department has undertaken substantial efforts recently to implement the Direct Deposit Program. It seems clear that government policy is dedicated to achieving maximum conversion to direct deposit. In recent months the Operations Planning and Research Staff of the Department of Treasury has worked diligently toward the achievement of that goal. Television commercials have been filmed, using nationally known stars, for distribution to the major networks as public service announcements. Similar radio texts have been sent to approximately 1400 stations across the country. All of these advertisements are aired for the sole purpose of promoting electronic payments by acquainting the audience with the advantages of the direct deposit concept. Audio/visual cassette programs on direct deposit have been created with Treasury funding. These are being used by the Treasury Department and financial institutions to increase enrollment of the elderly in various electronic payment programs. Numerous books, operating guides, marketing pamphlets, traveling roads shows, and customer profile studies have been funded by the Treasury and developed by the Operations Planning and Research Staff in their continuing effort to bring enrollment in the direct deposit program to 100% of all recipients. Attached for your review is a Treasury Department information bulletin (Attachment A).

#### ADDITIONAL CONSIDERATIONS

In addition to the policy oriented benefits to the Federal government described in the legislative history of P.L. 90-365, the Federal government receives direct and quantifiable benefits from the allotment program. It is reasonable to assume that the allotment program

approximates the number of items eliminated from the Federal Reserve Clearing system, since payment made via allotment would probably be made with checks, money orders, drafts, etc. Reasonably efficient commercial banks estimate their costs in handling paper items at 1.5¢ per item, and we believe this to be somewhat more efficient than Federal Reserve clearing. The data in the Report estimates DOD allotments to be in excess of 5.5 million per month. At Treasury figures of \$1.3 million total annual recovery and 6¢ per item, approximately 1.8 million civilian allotments are processed each month. Using the conservative figure of 1.5¢ and 7.3 million allotments per month, the Federal Reserve saves \$1.1 million per year by reason of the processing eliminated by the allotment program.

Financial institution participation in the allotment program is considered only marginally cost effective, and in fact, participation involves various burdens, both predictable and unpredictable, on an institution. For example, institutions usually credit customers' accounts for the amount of allotment items on the due date, whether or not funds are actually received from the government. Frequently, customers withdraw money credited to their account before actual receipt by the financial institution. This represents a loss of earnings on assets by financial institutions. Moreover, where an allotment has been stopped by an individual without the knowledge of the financial institution, frequently the financial institution suffers an absolute loss on the funds withdrawn. As another example, machine readable payment data is not furnished by all payment centers in connection with government allotments. Under these circumstances, allotment data may actually be more costly to process than receiving payments directly from an individual.

If the private sector is faced with the prospect of substantially increased costs in connection with allotment programs, we fear that many institutions may find it necessary to: (a) recover the cost directly from the allotter (b) discourage the use of allotments, (c) discontinue participating in allotment programs, or (4) establish minimum dollar levels for acceptance of allotments.

#### CONCLUSION

We are firmly convinced that the User Charge Act and Circular A-25 do not require charges for allotment programs. Specific statutory language is required in order to assess charges for allotment services. However, the User Charge Act as amplified by Circular A-25, even if applicable, would not require a charge for allotment service because of the standards set forth in the Circular.

Contrary to the conclusion drawn in the Report, financial institutions and insurance companies are only incidental beneficiaries in allotment programs. The direct and immediate beneficiaries of the program are: (a) the Federal government itself as an employer and through the Federal Reserve Clearing System, (b) the general economy of the United States, and (c) the allotter. Moreover, the allotment programs constitute a fringe benefit, which in the private sector, is provided as an accommodation to employees.

Finally, we think it is vitally important that consideration be given to the broader policy concerns associated with the Treasury's present efforts to convert government payment systems to direct deposit. We believe that implementation of the Direct Deposit Program may suggest to the Treasury the desirability of recommending a repeal of the statutory requirement under P.L. 90-365 to charge for allotment services.



OFFICE OF  
FISCAL ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
FISCAL SERVICE  
WASHINGTON, D.C. 20220

**TECHNIQUES FOR MARKETING  
THE DIRECT DEPOSIT PROGRAM**

The Department of the Treasury is currently providing continuous support in the area of marketing Direct Deposit. A few of the areas in which the Department is currently active include:

1. preparation and distribution of enclosures which are included in Treasury issued checks;
2. printing of promotional messages on the reverse of check envelopes;
3. distribution of brochures to national retirement organizations;
4. distribution of narrated slide presentations for retirement organizations and financial trade associations;
5. development and distribution of public service announcements for radio and television;
6. distribution of Direct Deposit promotional posters for use in retirement organizations;
7. attendance at seminars with national retirement organizations;
8. coordination of efforts with HEW's Administration on Aging;
9. initiation of a Beneficiary Profile Study.

In addition to the promotional efforts of the Department of the Treasury, each financial organization is encouraged to market the Direct Deposit Program. Some of the marketing tools that are being used by financial organizations are listed on the reverse side.

(SEE OTHER SIDE)

Attachment A

## MARKETING TOOLS USED BY FINANCIAL ORGANIZATIONS

1. Insertion of flyers in monthly statements
2. Displaying of posters in the lobby or waiting areas
3. Distribution of brochures prepared by the financial organization at tellers' windows
4. Preparation of local television, radio and/or newspaper advertising
5. Printing of promotional messages on the reverse of statement envelopes
6. Participation in small group seminars
7. Including a promotional message in postal franking

In addition to the marketing tools listed above, banks are sponsoring incentive programs, such as free checking, free money orders, and other services. Many banks are giving away the following items which may be imprinted with promotional messages.

- |   |   |
|---|---|
| 1. Pens and/or pencils                  | 11. Book and/or boxed matches                                     |
| 2. Book markers                         | 12. Informational cards (i.e. cards with the metric system, etc.) |
| 3. Plastic pocket protectors            | 13. Candy with promotional wrappers                               |
| 4. Paperweights                         | 14. Identification cards  |
| 5. Rulers                               | 15. Paper or plastic banks  |
| 6. Car litter bags                      | 16. Paper or plastic shopping bags                                |
| 7. Memo pads                            | 17. Pocket combs and/or mirrors with plastic cases                |
| 8. Sewing kits                          | 18. Golf tees   |
| 9. Frisbees                             | 19. Assorted dinnerware items                                     |
| 10. Pocket, desk, and/or wall calendars |   |

Prepared by:  
Operations Planning and Research Staff  
October 1977