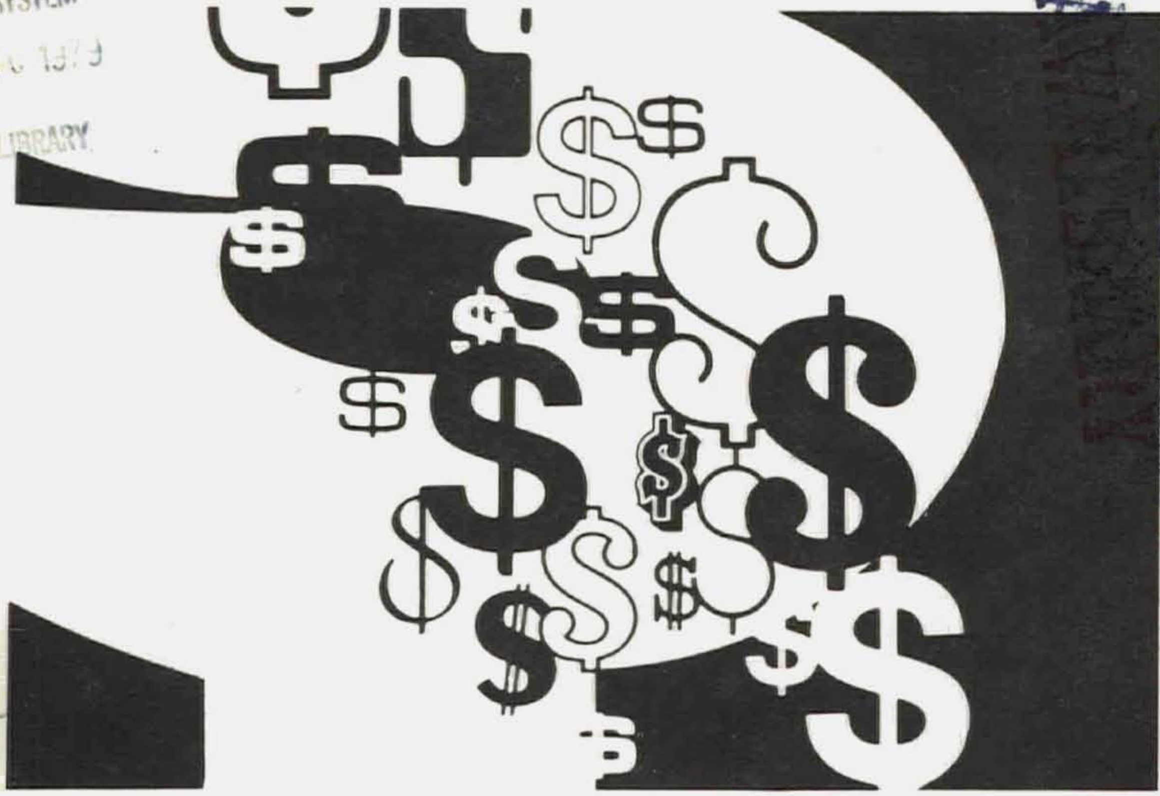

Proceedings From

Cash Management Workshop

October 18, 1978

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Financial Management Improvement Program

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WHAT IS JFMIP ?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices. The Program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General, and was given statutory authorization in the Budget and Accounting Procedures Act of 1950.

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the Government so that they will contribute significantly to the effective and efficient planning and operation of governmental programs. Activities aimed at achieving this objective include:

--Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.

--Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.

--Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.

--Undertaking special projects of a Government-wide nature to resolve specific problems.

--Providing advisory services in dealing with specific financial management problems.

The JFMIP plays a key role in mobilizing resources and coordinating cooperative efforts in the improvement of financial management practices, and relies on the active participation of Federal agencies to be successful.

FOREWORD

The Joint Financial Management Improvement Program has been promoting the concepts of good cash management practices for quite some time. In 1964, the letter-of-credit method for making advance payments to grantees and contractors was first introduced as a result of a JFMIP study. This method is designed to reduce the interest cost to the Government by keeping the funds in Treasury until they are actually needed by the recipients.

Another JFMIP study on money management highlighted the need for cash management improvements in the Federal sector. It concluded that substantial savings can be realized if operating agencies establish effective cash management procedures. In the January 1976 Money Management Study report, specific guidelines were provided as to how agencies can improve cash management in the areas of disbursements, collections, and forecasting.

More recently, efforts to improve cash management practices have been initiated as one of President Carter's reorganization projects under the leadership of the Department of the Treasury and the Office of Management and Budget. To date agencies have identified annual cash savings of over $175 million resulting from improved cash management procedures and techniques. Early in 1978 the Treasury Department issued regulations on establishing effective cash management practices within operating agencies. In order to further encourage good cash management and to disseminate information on the latest developments in its techniques and technologies, JFMIP sponsored a series of related workshops and published articles in the JFMIP News Bulletin on agency efforts in improving cash management.

We have prepared this document to share the information presented at the all-day Cash Management Workshop held on October 18, 1978, in which the principles of effective cash management--to accelerate receipts, to properly time disbursements, and to invest surplus cash balances--were discussed. We hope that this information will be useful in further promoting and implementing improved cash management throughout the Federal Government.

We wish to express our sincere appreciation to the speakers and other participants who contributed so much in making this workshop a success. Special thanks go to the Treasury Department and the Civil Service Commission, for their cooperation and assistance in the planning, coordinating, and conducting the workshop.

Susumu Uyeda
Executive Director

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CASH MANAGEMENT WORKSHOP

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INTRODUCTORY REMARKS

Gerald Murphy
Chairman, JFMIP Steering Committee

It is with great pleasure that I welcome all of you to our cash management workshop cosponsored by the Joint Financial Management Improvement Program and the Association of Government Accountants. This large attendance is especially gratifying, and is a fitting acknowledgment of the calibre of our speakers. Someone once said that, "Most of us will listen to people who are smarter than we are; the trouble is we can't find any." I can assure you that no one will leave here today disappointed or uninformed.

We have come together to take a closer look at what can be done to improve cash management within the Federal Government. But before looking at ways to improve Federal cash management, we should first ask some very important questions.

- Can the Federal Government really use its cash more effectively?
- Is the daily cash flow something that can be feasibly harnessed?
- Are Federal agencies overall managing their cash effectively?
- What is the purpose, rationale, and design of recently issued regulations on cash management?
- Can we learn from another agency's experiences in integrating cash management principles into operation?

These and related questions will be addressed by our speakers today and each problem raised will be discussed during the course of our program. These questions come at a very opportune time when we consider

- that interest on the outstanding public debt which maintains its status as one of the largest items in the budget continues to severely test the ingenuity of Federal debt managers

- that the magnitude of the annual Federal cash flow into and out of the Treasury's accounts is approaching $1 trillion and

- that too often the value of money is highly underestimated within the Federal sector.

In an effort to become more "management conscious," the Government must increasingly turn to business, especially in the area of cash management, to keep abreast of the sophisticated techniques and practices utilized in the private sector or else it will find itself competing at a disadvantage. The increased popularity and interest in the tools and concepts of cash management does not mean that we understand completely the problems of managing the Government's cash, nor does it mean that the techniques which are successful in industry can be applied without some modification in each Federal agency system. It does mean, however, that Government executives, especially top-level financial managers, have begun to realize that at the present, they may not be managing cash as well as they could be.

I must note that the major consideration motivating the private sector toward effective cash management is the profit opportunity. Although nonprofit organizations (such as the Federal Government) do differ from the profit-oriented companies, they also have much in common. They both have objectives, they both make decisions about the use of resources, and in both cases, an important management function is to see to it that the organization uses these resources efficiently and effectively. Achieving such objectives is never possible except against specific, clearly defined targets. If targets are set, resources can be allocated, priorities and deadlines made, and somebody held accountable for results.

The chief executive officer in a private company has a wide variety of quantitative yardsticks to measure performance that are not available in the public sector. Consequently, objectives are rarely set in the public sector and progress is measured in terms of activities rather than accomplishments. This problem is compounded by the fact that there is no direct benefit to the individual or agency for being cash-management conscious. The difference between motives, objectives, and accountability between industry and Governments are often offered as reasons. However, these are not adequate explanations.

The specific objectives of effective cash management are to accelerate receipts, to properly time disbursements, and to invest any surplus cash balances. Successful cash management allows Government, in the same manner as private enterprise, to make the most of the time-value of funds collected, held and spent. The payoff from deriving the maximum benefit from our cash resources results in an increased availability of funds which directly impacts the amount of Federal borrowing to finance deficits or liquidity shortages. There will be several cases brought before you by our speakers which will show how much even one day's difference in the availability of funds can cost or save in the form of interest. What should be kept in mind is that even though such increases in interest costs do not result in fewer dollars being available for agency purposes, they do translate into direct Federal outlays.

What can you as individuals do to improve cash management? Like any large organization, there is a tendency for management to become totally immersed in the maze of everyday business. However, if more thought was given to the cash management impact of alternatives during the decisionmaking process, an important contribution could be made. This is because seemingly routine decisions on handling receipts and making disbursements can have a significant effect in the aggregate.

What is really desired is improvement in the way in which Government managers approach their cash management responsibilities. If we are to make a lasting contribution, we must foster and encourage better awareness toward cash management and make an impact within the maze of routineness--especially on the financial manager who is in a position to change the way things are done. We want you to start thinking about what you are trying to accomplish. You must be the one to reach the conclusion that there is a better way to approach cash management and serve the public, the Government, and your own interests.

How should this be accomplished? This question is largely left up to each agency with guidance by such organizations as OMB, GAO, and Treasury, and the requirement set forth by the President that it most certainly must be done. The challenge for its accomplishment is emphasized by something that I understand General Patton once said, "Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity." I fervently hope that you will accept the challenge and keep in mind that good cash management is not the goal of only a few Government entities but a joint effort requiring professional commitment from us all.

THE PRESIDENT'S PERSPECTIVE OF CASH MANAGEMENT

Richard E. Cavanagh
Executive Director
Federal Cash Management
President's Reorganization Project
Office of Management and Budget

Last week I met with the Budget Director of a foreign country who is interested in cash management, and he asked why the President of the United States would be interested in cash management. My explanation was that we have something in this country now called Proposition 13, which is a concern that we in the Government are spending money that we should not be spending. Therefore, we must think of ways to cut the amount of money we spend. An easy way that will not short-change any of our programs is to strengthen cash management. We then must spend more time and manage things more carefully to try to save money.

The President had been involved in cutting down Government spending with cash management in Georgia. Jim McIntyre, our Budget Director, is the person responsible for leading a good deal of that effort in Georgia that increased the interest earned by 200 percent. Cash management will not only save the Government money, it is something that is easy to measure and a good indication of how well government manages itself. The interest shown by the President to save the Government money has made cash management a Presidential objective and a Presidential mission, as stated in the President's State of the Union message last year.

I think that the work we have been doing together has made the promise of cash management a reality. When we started our Presidential Cash Management effort last year, we had the good fortune of having a legacy of years of cash management excellence from both Treasury and GAO to build on. Our results revealed that by implementing cash management improvements in various agencies, approximately a quarter of a billion dollars a year will be saved, and we are sure that we have not finished counting all of the savings yet. What I would like to do is talk about what we did--or what you did--because basically it was people such as yourselves who made this thing a success and who will have to carry the ball in the years ahead. The presentation is divided in three parts:

1. What is cash management?

2. What was our approach?

3. What do we have to show for it? What are some of the recent improvements?

Cash management is, very simply getting the most out of the time-value of money that we collect. It is very similar to how we as consumers manage our own cash. Cash management is much more important in the Federal Government because the Government has literally billions of dollars of cash flow and time is truly money. We have identified ways to accelerate the collection, to make more timely disbursements and to invest idle balances of funds, and I would like to tell you who was doing what and what efforts were recently started. This was a joint effort, not by just the White House, OMB, or the President's Reorganization Project, but by all of the cash managers in Government, especially those in the agencies. Ninety-five percent of the work was accomplished within the agencies and this is where over 95 percent of the good ideas came from.

Let's begin by looking at the acceleration of collections. We found that there were cases where agencies should send out its bills earlier. For example, the General Services Administration has stockpile sales which are worth about $300 million a year. New procedures implemented at GSA will cut off 21 days from the time that it takes to send out a bill. With an average bill of about $1 million, GSA will save about $300,000 by sending the bills out earlier. Similarly, the Energy Department can save $500,000 by sending their bills out earlier. In terms of sending out bills on time, the Bureau of the Public Debt in the Treasury Department identified some cash savings after reviewing their savings bond program. Previously, the Bureau of the Public Debt did not require that receipts from the purchases be deposited to the Treasury account immediately. Some of the savings bond money was held for a month or so before the bank would turn it over to Uncle Sam. By tightening down on that, and having people send the receipts for savings bonds in as quickly as they send in their requirements for having cashed them, it turns out that savings of about $18 million a year can be gained. So you can save money by paying attention to when you send out your bills.

The next step, after collecting the money is to get it deposited as quickly as possible. There has been a series of improvements and they have been astounding in getting receipts processed quickly. Customs Service changed their check handling procedures for custom duties receipts, so that now the check is separated from the other documentation received and deposited immediately. A savings of over $6 million a year will be obtained by implementing this change. The Veterans Administration is using some sophisticated machinery in their offices of insurance claims to save about a hundred thousand dollars in interest a year. The Internal Revenue Service has instituted new procedures that will permit immediate deposits of all checks over $25,000. This will save about $10 million in interest.

In terms of disbursements, we reviewed GAO findings on when the Government pays its bills. The Senate Small Business Committee was concerned that many small vendors of the Government were not being paid on time, and requested that GAO do a study on whether the Government pays its bills on time and what can be done to ensure that we do pay the bills on time, so that it will not bring any hardships on small vendors. It was a shock to everyone that a large majority of the bills were paid on time, and that there was only a small number that were paid late. Moreover, there is a greater number of bills that were paid too early, which has cost the Government about $180 million a year in extra interest.

What are we doing about that? Guidelines on disbursements were issued in Chapter 8000, of the Treasury Fiscal Requirements Manual and OMB Director McIntyre has directed all agency heads to stop paying bills too early and too late. We have to figure out how to pay them on time by the suspense date, making sure that if a bill is to be paid 20 days after receipt of goods, it is paid, and it is not paid one day later. The early results on this are very promising. GSA stopped paying its bills too early after they found out that the Government was losing about $7 million of net interest by paying these bills too early. Similarly the Energy Department will save over $3 million. The Defense Department, which I think has done a very good job on paying its bills, is still trying to figure the total amount of savings if it stopped paying the bills too early, but our estimate is that we will save about $29 million a year.

The second part is eliminating advances and using letters of credit, which JFMIP, Treasury and GAO discovered long ago. It still makes good sense to tinker with it and to refine it, and make sure that we use the letters of credit for all of the appropriate kind of programs that we do. Recently the Commerce Department started using letters of credit for the public works programs in the Economic and Development Administration. This will save over $43 million a year for the taxpayers. The Department of Health, Education and Welfare is using the checks paid system where money is put in the grantee's bank just before they need it and not before or after. This will save over a million dollars per year.

The final analysis is making sure that we do not have idle balances just sitting around. Certainly, the most impressive things that we have done recently is earning return on Treasury tax and loan accounts. In the past, we were never able to get interest on tax collections held at financial institutions. Last year legislation was enacted that permitted Treasury to earn interest from the tax and loan accounts, which is worth about $75 million in savings. In terms of eliminating other idle balances, the Agriculture Department, experimented with the use of electronic funds transfer to pay for the grants to the States for Food and Nutrition Service. They found out during their pilot test in California, that if they could assure the State the funds would arrive the same day as needed, then the State could reduce the balances of Federal funds which were held by 95 percent. By projecting on a nationwide average, a savings of $8 million just for the Food and Nutrition Service may be realized. This is a very useful experiment; one that we all have been observing.

Why is cash management important to the Federal Government? The Federal debt last year was $780 billion gross, $611 billion net. The difference between those figures is that part of the debt which the Government owns. In other words, the Social Security Trust Fund, the Highway Trust Fund and other trust funds have investments in debts that we owe ourselves. The same applies to interest of $49 billion gross--$11 billion interest which is our own. This is a very significant amount and cash management can help reduce the borrowing of the Government.

What was our approach? When we started this study, we knew that many good activities involving cash management were going on. However, they probably did not get the visibility or encouragement that they needed. There were some 65 efforts in 21 agencies this time last year that were either underway, planned, or proposed. The most important thing for us to do is to build on these efforts, find out what we can learn and what is appropriate in other places. That is what we did. Obtaining early results was important to us because if the improvements were made, and there were real money savings, then cash management would be of more interest to agency heads as well as financial managers in the agencies.

We had to report to the President every 3 months on what the Government had accomplished in cash management improvements. The first 3-month report was quite an experience. We were committed to achieve early results and we had the good fortune of getting them in large measure because of the 65 efforts that were already underway.

We thought it made sense to transfuse private sector skills. In the private sector, interest is really charged to business and managers are vitally aware of the interest cost. Generally, people in the private sector paid more attention to cash management, at least on a general management basis, than people in the Federal Government. We, therefore, recruited half of our staff of about 25 people from the private sector; these people were senior managers, i.e., treasurers, on loan for a short time--3 months or 6 months. They tried to help various agency activities in their cash management improvement efforts. The results came back very positive. While these people often knew very little about the Government and its morals and values, they knew that they did have some techniques that were generally useful to the Government and, I think more importantly, they found that many of the stereotypes about Government were incorrect.

We formed a close working relationship with Treasury. Treasury provided leadership in cash management for years and will continue to do so. We looked around the peripherals of what Treasury had been up to for a number of years, and in some cases we accelerated some activities.

We found that the General Accounting Office had completed 31 reports on cash management within the 2 years preceding our showing up. The GAO had many good ideas, not only specific ideas for individual agencies, but more importantly things they had found in one agency which really had wider application. One of the first things we did was to look at those reports. We tried to find out which recommendations were not implemented and where there were opportunities for greater applicability of what the GAO had reported, the results were very worthwhile. I would recommend to any of you doing a cash management review in your own agency to find out if a GAO study on cash management was performed or if a study in an agency similar to yours was completed. You should obtain a copy of the GAO report, and see if any of the suggestions and advice can be applied in your agency.

As you all know, the JFMIP has been interested in cash management for years. We had the good fortune of being able to recruit the project director of JFMIP's cash management study 2 years ago to our staff, as well as a number of senior people who had been on that particular study. It helped to have people who had recent experiences in working with the problems associated with cash management.

We had a number of these PRP/Agency task forces, and a number of people were involved in those from Treasury, Defense, HEW, Interior, HUD, Agriculture, GSA, VA and many more. We did a number of reviews where there were already efforts going on in the agencies and we helped in their efforts to identify and implement cash management improvements. We worked on Government-wide projects--one of which was on incentives. The Civil Service Reform Act signed by the President on Friday, October 13, 1978, stated that there should be an incentive for good management. We are trying to have incentives for good cash management.

I guess in summary my message is that I would like all of you to be as interested in cash management as the President is. Then we will really make more progress in saving the Government money. Thank you.

MANAGING THE GOVERNMENT'S CASH

Philip Fitzpatrick
Assistant Fiscal
Assistant Secretary
(Financing)
Department of the
Treasury

The full text of Mr. Fitzpatrick's speech is not available for publication. We have summarized some major points on how the Government manages its cash.

The Treasury Department has the overall cash management responsibility for the Federal Government. One of its specific functions is to forecast the cash flow for the Government, to ensure that a sufficient amount of funds are available for disbursement when needed. The cash balances of Treasury accounts, which are maintained with the Federal Reserve Banks, are based on the current disbursing needs of the Government. Most of the public funds acquired through the collection of taxes and other revenues, sales of public debt obligations, collection of monies held by the Government as a trustee, and miscellaneous reimbursements and refunds are held in these accounts.

To monitor the Government's cash flow, Treasury obtains data from the Federal Reserve Banks, disbursing offices, various collection and outlay systems within the Government, and agency contacts. Agencies can play an important role in the achievement of efficient Government-wide cash management procedures by providing accurate cash flow forecasts to Treasury. By using all of this information, Treasury projects daily the cash balances of its accounts at each Federal Reserve Bank, and can initiate transfers of funds whenever necessary to meet the minimum cash requirements.

CASH MANAGEMENT AND GAO

John J. Cronin, Jr.
Assistant Director
Financial and General Management Studies Division
General Accounting Office

I think we should start out by briefly discussing what we mean by cash management, and why we need it. Very simply, cash management is nothing more than exercising good internal control over the collection of receipts and the making of disbursements. Both should be done on a timely basis. The reason why we need cash management is also important and simply a matter of dollars and cents. Currently, interest on the public debt is about 10 percent of the Federal budget, so, if we can speed up government collections and slow down government disbursements, the amount of borrowed funds needed by the government to finance its operations could be reduced.

We, in the General Accounting Office, have been dealing with cash management issues for many years and our efforts can be traced back to the days in the 1940s when GAO changed from a centralized voucher audit to a more professional CPA-type audit. Many of our earlier executives were recruited from CPA firms, and as such, audits stressing internal control of receipts and disbursements in Federal agencies were stressed in much the same manner as audits of commercial enterprises. Of course, in those days we did not call it cash management. This is a relatively recent term. The problems, however, of poor cash management have been with us for years.

I can still vividly recall a case I observed in 1966 while serving in the capacity of a staff member of the Senate Appropriations Committee. The chairman had asked us to look at certain aspects of the management of the Farmer's Home Administration. Quite by accident, while visiting a FmHA County Office, I noticed a most unusual procedure when farmers would sell their crops and pay off large farm operating loans in cash. The county office was located in a building across the hall from a bank on one end of town. The clerk would take these cash loan payments of several thousand dollars to the post office located at the other end of town; and convert all this cash into postal money orders which, as you may recall at that time, had a very small dollar limit; batch up these piles of money orders and send them to their finance center in St. Louis. I stopped in to see the postmaster and to talk to him and a somewhat haggard clerk, who had just spent most of the day filling out money orders, to find out what they did with all this cash. The postmaster told me it exceeded the amount they were authorized to have on hand. Therefore, the clerk would take the cash across town to the bank located across the hall from the FmHA office; deposit it in their checking account; and forward a check to their finance office, which ironically was located in St. Louis, just down the street from the FmHA finance office. The adverse effects of this paper chase are obvious. Modern day technology could have wired the money to the Federal Reserve for immediate credit and the posting of the farmer's loan transaction could have caught up later. One of the greatest problems to overcome in these types of cases is the reluctance of people to separate the cash side of transactions from the accounting side of the transactions, and reconcile them later.

Of course, one of the reasons for not exercising good cash management in our jobs is that some of us don't do too good a job in our own personal cash management. I don't think we have to go to extremes like one fellow I know out in the suburbs who offers his wife the keys to the car or the credit cards, but never both at the same time. Other less extreme methods are available which would not threaten one's personal safety. For example, I am willing to bet that many of you here today could improve your own cash management. I am certain that most of you have your paychecks sent to a noninterest-bearing checking account in a commercial bank. If you are doing this, I am going to show you how to get a free dinner for two at the restaurant of your choice. It's easy. Several New England States have savings and loan organizations which have opened up Negotiable Order of Withdrawal accounts called NOW accounts. Credit unions are following suit with similar accounts that pay interest. As an experiment, we asked one of the people in our office, working in the area of cash management, to volunteer a copy of his monthly bank statement. Had his deposits been placed in an interest bearing account earning 5 percent, and if the average daily balance was annualized, he could have earned about $38 interest. There is one dinner for two at a not-too-fancy restaurant. But, if this individual looked at the timing of his payments and found that he could delay them without making them late, and defer his payments an average of 7 days, his interest earning went up to $55, and increased further to $73 with a 14-day delay. That should be a really good dinner for two with a little champagne thrown in.

If this opportunity for a free dinner has made you think a little better about cash management, I want you to now think in cash management terms, and relate that thought to the current flood of television commercials, by a well known television detective, suggesting that you retain your remaining travelers checks in your wallet to pay that tow truck driver at 2 o'clock in the morning, who only takes cash. Clever cash management, particularly if 5 million of the many traveling Americans each retained a $50 travelers check--a cool $250 million to play with. So much for the general aspects of cash management in our personal lives. I think you can see that the point I am trying to make is that if you are always alert for cash management opportunities in your personal lives, that trait often carries itself over into day-to-day business dealings. Now with that overview in mind, let's talk about cash management in Government and what the General Accounting Office is doing in the area.

ADVANTAGES AND DISADVANTAGES OF CURRENT CASH MANAGEMENT TECHNIQUES

Letter of Credit

One of the biggest steps forward in cash management in the Government was the introduction of the letter of credit in about 1964. Expenditures under the letter of credit since its inception in Government in 1964, have grown to over $35 billion in 1973, and is well over $50 billion now, and increasing daily. We pointed out in a 1973 report to the Congress, however, that much more needs to be done. We suggested that a number of better techniques could be developed for managing disbursements and the letter of credit, and that there was a need for centralized agencies, such as the Office of Management and Budget and the Department of the Treasury, to provide guidance and encouragement in the use of the letter of credit. One of the biggest problems in the use of the letter of credit and other cash management techniques is the lack of incentive. If an agency action is going to save the agency money, there is an incentive, but where they have to use additional resources of their own and the benefit accrues to another agency, the incentive disappears.

There are several techniques that involved the use of letters of credit. One method utilizes the Federal Reserve Bank System. Under this system, the banks disburse the funds requested by the recipients. An inherent problem with this method is that agencies can only monitor cash drawdowns on an after-the-fact basis. To overcome this, the Treasury Department has instituted a system utilizing their regional disbursing offices. Under this system, the recipient make their request for funds to the Treasury, and Treasury can review the outstanding balances before the disbursement is made. Although a very sound idea, this is not without its problems involving recipient proximity to Treasury disbursing offices and nonfamiliarity with recipients' cash flow problems by the Treasury employees. Also other good techniques developed jointly by the Treasury Department and the Department of Health, Education and Welfare, are the single letter of credit and the consolidated letter of credit, which basically consolidates many individual letters of credit that would be held by a single recipient. The problem that this type of system creates, that we must overcome, is that if funds from many programs are included in the letter of credit and as such loose their identity, then which program agency would be responsible for monitoring the recipients' cash?

It is not my intention here to paint a gloomy picture. These techniques have saved the Government many millions of dollars and the savings are well worth the problems that I am discussing. What is needed now is to work toward the resolution of these problems.

Delayed Drawdowns

Delayed drawdowns is another sophisticated technique that has developed in recent years. Very simply, what is being encouraged is that funds not be drawn on letters of credit until checks are actually issued. One technique we, in the GAO, have been using very successfully, in our auditing efforts where commercial bank accounts are involved, is to obtain account analysis. We find that many people in Government and in the private sector are totally unaware of how banks operate their commercial accounts--most commercial checking accounts are free, that is there is no charge to the customer for checks issued, and the banks earn their money on the sizeable amounts of money held in these bank accounts. To enable the banks to know how they are doing, a monthly analysis is performed on each account that shows how much the banks are earning on the account. Although the forms used by the various banks vary widely, they generally show the costs to the bank of all the transactions processed and the earnings credit required to cover those costs as well as the excessive balance available for earnings. Many people are not only unaware of these analyses, but are also unaware that they can be routinely obtained by asking the bank. Therefore, if you want to know how you are doing in the delayed drawdown technique, or the checks-paid technique, you should regularly obtain and review the account analyses.

Checks Paid

This is the most sophisticated technique of cash management developed to date and is only being used by a few sophisticated recipients. It is a technique that, if expanded, could save the Government millions. Of course, there are many types of recipients of Federal funds that would not be able to use this technique. Very basically, the recipient maintains a zero balance bank account with the banks permission and writes checks drawn on these accounts. When the checks are presented for payment, funds are either transferred from an interest bearing account or wired under a letter of credit. The obvious question is how does the bank make its money and the answer is, it receives an agreed-upon, noninterest bearing deposit or service charges made at agreed rates.

Electronic Funds Transfer

I do not intend to spend much time talking about EFT except to point out that this is a very sophisticated method and generally has applicability to the larger Federal programs. Where agencies have very basic cash management problems even though they deal with a lot of money, we should not immediately think in terms of EFT where checks are not being deposited at all. Rather than jumping into EFT, a system of timely deposits by check should be considered first. This will account for most of the savings to the Government. EFT can come into play after timely deposits are made and even further increase the savings.

GAO EFFORTS TO IMPROVE CASH MANAGEMENT

The general areas on which we have been concentrating over recent years are collections and disbursements, which I mentioned earlier, imprest funds, travel advances, and nonappropriated funds.

Need to Accelerate Collections

Federal agencies that collect money for whatever purpose should regularly evaluate how well they are doing particularly in light of the lack of incentives that I discussed earlier.

For example, in a recent review of a mortgage insurance program, we identified about $38 million in delinquent accounts receivable. This is a rather large deliquency particularly since the agency collects slightly over $300 million a year in insurance premiums. What is of great concern here is that we are not talking about receivables from the average business enterprise, we are talking about mortgage bankers and insurance companies. Basically these delinquencies were allowed to accumulate because of weaknesses in the accounting system of the agency and a need for aggressive collection action which I might add the agency has been taking since we brought these matters to their attention.

One interesting aspect of our review at this agency discloses the attitude on the part of some firms in the private sector that if they can beat the Government out of a little cash, they're going to do it. A very large mortgage banking company had not remitted the monthly premiums it had collected that belonged to the agency for over 10 months. They owed the agency $1.5 million. Followups, even at our request, were ineffective in obtaining payment. A letter to the company announcing an audit to commence the following week suddenly produced the vice president of the company in Washington with a check for $1 million. An apology for administrative oversight that resulted in the nonpayment was made along with the suggestion that the GAO audit the following week was unneeded. The audit took place and we received another check for about $500,000.

Another issue we have raised is the manner in which the insurance premiums are collected. Insurance premiums are paid monthly for the insurance coverage of that month and retained by the mortgagees until the year-end and remitted to the agency when an annual bill is received. Although these monies belong to the Government at the time they are paid, the mortgagee has the use of these monies up to 1 year. We have suggested that the mortgagees remit the cash monthly but continue the annual individual account reconcilation rather than burden the agency's over-taxed system with a monthly reconciliation. If this suggestion was impemented interest savings to the Government would be about $16.5 million annually.

In another review we examined the payment of Customs import duties, which are protective tariffs designed to make overseas goods compete on a more equal basis with domestically produced goods. Historically,they are to be paid when the goods are entered into the country. Many years ago importers of perishable goods, such as fruit, from South America complained that their goods were spoiling because it took 5 to 10 days to go through the entry process. Customs then initiated a system called immediate delivery where a legitimate importer could move his perishables off the dock immediately upon arrival, and pay the duties 10 working days later. Over the years, other importers seeing this special treatment were granted the same privileges. In our review we found that the average time from import to payment of duties was 12.5 calendar days. We estimated these deferrals cost us about $9.6 million annually in lost interest. Of course, it is again interesting to note that most importers use professional brokers who obtain the import duties up front, so to speak, and have the use of these monies during the deferral period.

Similar but more extensive deferrals take place with regard to duties on imported alcohol, which sort of spills over into domestic alcohol taxes which also have deferrals. The chances are very good that the Government did not receive the taxes on the last martini you had until long after you drank it. Another area of concern are accounts receivable in general throughout the Federal agencies. These receivables amount to over $14 billion. Last year about $200 million was written off. Many of these writeoffs occurred simply because of weaknesses in Federal agency accounting systems and the failure to have an aggressive collection policy. We find similar situations in most every agency we visit when we look at travel advances which remain outstanding for long periods of time without travel being performed. The better cash management practices would be to have a travel advance for each trip and the voucher closed out as soon as travel is completed. Naturally there would have to be exceptions for those in continuous travel.

Need to Slow Disbursement Rates

Now let's talk about the other side of the ledger--disbursements. We have a number of reviews underway which indicate to us that there is a serious need for all Federal agencies to continually monitor their disbursement rates. This principle also should trickle down to State and local government as well as grantees. Not only should disbursement rates be monitored, but where commercial bank accounts are involved, bank balances should be monitored closely.

For example, in a review currently underway of the accounting for unemployment insurance trust funds, we find that the Federal and State funds on deposit in the U.S. Treasury earn interest until withdrawn by the States. Generally these monies go into a checking account in a commercial bank at the State level which processes the unemployment insurance checks. We noticed that many of the States were withdrawing their funds a little early to make sure the funds were on deposit when the checks were issued. We asked several States to obtain the account analyses from their banks which I mentioned earlier. These analyses tell a very interesting story, and provide the opportunity for savings in lost interest of $10 million annually if the unemployment insurance trust fund went to a checks-paid basis. Of course, it is not as easy as it sounds. We are working very closely and very cooperatively with the Department of Labor, Treasury Department, the Federal Reserve, and a number of State treasurers. We are about to sell this idea to the States because their money is involved, and if their tax deposits earn more interest, conceivably they could reduce the unemployment tax rate in their States.

In yet another review of the student loan funds, we found the culprit preventing good cash management to be the Federal statutes themselves. If unneeded student loan funds on hand in universities are returned to HEW, they must be deposited into miscellaneous receipts and are lost to the program. A change in the legislation allowing HEW to recredit the appropriation would permit the excess cash to be returned to the Treasury during a school year as loans are repaid until it is needed again the following school year. Naturally it will take some effort to change the Federal statutes, but we think a $4 million interest saving annually is worth it.

We also have a review in process of HEW's grant disbursement system. HEW is one of the agencies that has taken the lead in cash management, particularly in the area of letter of credit. Their actions have saved the Government millions, yet we see opportunities to tighten up even further. While HEW's consolidated grant disbursement system has provided many benefits, it can create other problems, such as the loss of identity of individual program funds, with the result in diffusion of responsibility so that no one really knows who is responsible for monitoring the cash the grantees have on hand. We estimate that closer monitoring of the major grantees in this program would slow cash disbursements and could save as much as $8.5 million annually.

The examples I have talked about here today, if we add up the dollars we can identify, amount to annual interest savings to the Treasury in excess of $50 million. Other cash management efforts in GAO involve electronic funds transfer, and other cash management projects by the agencies and the President's reorganization project can total up to even far greater amounts. However, there are problems.

OBSTACLES TO GOOD CASH MANAGEMENT

Those of you involved in cash management when you leave here today, I hope will leave with a conviction to help remove these obstacles most of which I mentioned during my talk today. To sum it up, there is the need to identify the responsible parties for cash management in any disbursement or collection-type program; the need to overcome the lack of incentives when good cash management practices benefit the Treasury Department rather than the agency involved; and the need to change restrictive Federal and State statutes. On the last point we have noted in our dealings with several of the States, some of the problems occur from very narrow interpretations of the statues. When some of the States observe some of the benefits that could be derived from good cash management, it is amazing how these interpretations are liberalized.

In concluding I leave you with a question--where do we go from here? The answer is up to you.

Thank you.

THE EFFECT OF THE FEDERAL PROCUREMENT POLICY ON CASH MANAGEMENT

Joseph F. Zimmer
Deputy Associate
Administrator
Office of Federal
Procurement Policy

I'm very pleased to have this opportunity to speak with you today and to participate in this cash management workshop. As some of you know, cash management has received high visibility in congressional hearings, Presidential directives, by the Treasury Department, and OMB policy emphasis. It is good to work with professionals like yourselves and to explore avenues wherein we can make the trip down the road in dealing with the Government a more pleasant experience for both the contractor and Government financial managers and less burdensome in terms of cash flow and funding needs. First, a few words about the Office of Federal Procurement Policy.

The Commission on Government Procurement (COGP), was formed in 1969, and prepared its final report in December 1972. The Office of Federal Procurement Policy (OFPP) was the number one recommendation of this commission. Public Law 93-400, signed on August 30, 1974, established the OFPP, which is the "United Nations" of procurement, the lightning rod, a central place where all may come seeking resolution of procurement policy problems. It is the focal point for Federal procurement policy involving about one-fifth of the Federal budget. The responsibilities of this office parallel the scope of disciplines covered by the 149 recommendations of the COGP.

The main functions of the Office of Federal Procurement Policy as set forth in Public Law 93-400 include:

-Establish a system of uniform procurement regulations.

-Establish criteria for soliciting viewpoints in the development of procurement policies and procedures.

-Monitor policies and procedures relating to the reliance on the private sector (A-76).

-Promote and conduct research in procurement.

-Establish a procurement data system to meet the needs of Congress, the executive branch and the private sector.

-Promote programs for the recruitment, training, career development and performance evaluation of procurement personnel.

Special features of the OFPP and the Administrator are that it is part of the Executive Office of the President, but it reports not only to the Director of OMB, but also to Congress. It has a separate budget from OMB, and our Administrator must be confirmed by the Senate.

Staffing within this office was completed on December 1975. This included 21 professional and 6 support personnel, who are full time. The professionals represent over 350 years of procurement related experience, consisting of 5 lawyers, and 14 with masters or equivalent, and a cross section of experience from industry, civil agencies, Congress and the Department of Defense.

The six functional areas in the organization are:

-Acquisition Law.

-Logistics.

-Commercial Products.

-Labor Affairs and Personnel.

-Regulations and Procedures.

-Systems and Technology.

The Office of Federal Procurement Policy has worked very closely with Treasury on its revision to Chapter 8000, of the

Treasury Fiscal Requirements Manual and Treasury Circular 1084. We have attempted to refine the countervailing considerations of paying promptly, but not sooner than necessary. The recent history we've seen in cash flow problems for contractors has not been diminished by prevailing interest rates on borrowings whether short term or long term. Available capital resources fluctuate, depending on whether the Government itself is in the funds market, and monetary policies can strain industry's capital investment needs for plant expansion, new product exploitation, safety and pollution controls, and similar requirements. The small entrepreneur is particularly hard-pressed to meet everyday needs of running a business including such mundane essentials as a payroll. Their opportunity and sources for capital are limited because of banking risk analysis and certain biases, so procurement managers must do an even better job in minimizing investment in receivables for the small business person. Most all agree, however, that good cash management practices generally dictate that disbursements be made when due and only when due. Easing the burden in this area supports the Administration in its view of the small contractor. Since we're talking about a universe of some 14.5 million procurement actions a year involving a procurement-related workforce of some 50,000, the problems encountered and need for working solutions are readily apparent. Representatives like yourselves can assist greatly in this area by attitudinal and behavioral emphasis. One must keep in mind, however, that the perception of when a payment is due depends on whether you're the payer or the payee.

Chronology on Payment Actions in the Procurement Process

The Commission on Government Procurement (COGP), as well as the Commission on Federal Paperwork both examined the payment situation with respect to Federal procurement. Certain recommendations were made bordering mainly on simplification, uniformity, and easing the paperwork burdens for an already harassed contractor. Some of these recommendations were subsequently rejected and others are in the process of being implemented. For example, where possible, we will foster the inclusion of specific payments provisions in each contract, a contact point for all payment matters, and simplification of the receiving documentation, such as the DD 250 used by the Department of Defense, and its utility for the civilian sector of the procurement community.

As early as August of 1976, and again in June of 1977, OFPP issued notice to agency contact points emphasizing the importance of timely payment under Government contracts. In between, we worked with Treasury in reviewing its revised Circular 1084. We have cooperated with the Congress at hearings to overview actions and policy necessary to carry out the spirit and intent of paying bills promptly when due. The recently concluded GAO study of bill-paying practices was the subject of a hearing by Senator Packwood (Oregon), who had received numerous complaints from small business as to Government insensitivity in this area. About 50 percent of bills, according to the GAO report, are paid within 2 weeks, some in the balance may run 60-90 days or longer for various reasons. Some of these delays when examined are not the fault of the Government because of inadequate goods or services, partial or incomplete shipments, lack of instruction manuals, or spare parts, and other similar reasons.

Withholding provisions, and contract close-out procedures also work, on occasion, to delay final payment and this has added to the negative view on payments in the GAO analysis.

The President, in a November 1977 memorandum, directed his reorganization staff, in conjunction with the Treasury Department, to conduct a comprehensive review of cash management policies, practices and organization throughout the Federal Government. We have coordinated our efforts with them in this regard and that study, should be finalized this month (October). It will show that NASA, DOE, GSA, and HEW are generally good in disbursing promptly with some holes evident. Just last July, the Director of OMB, Mr. McIntyre, in a letter to the Heads of Executive Departments and Agencies solicited support for making improvements to ensure that the Government pays its bills when due--not early or late. He endorsed the policies and practices contained in the new Chapter 8000, of the Treasury Fiscal Requirements Manual and stressed that they be observed.

Legislation on Payments

In both the 94th and 95th Congress, a number of bills were introduced to require payment of interest on past due Government contract invoices. Some called for interest after 2 weeks, others after 30 days, at an annual rate of 12 percent. They would require OFPP to promulgate regulations requiring the payment of interest. Our comments on these bills were generally in the vein that it could best be handled administratively, rather than through legislation. Contractors, we have found, are more interested in getting timely payments rather than late payments with interest. The difficulty of establishing when a payment "was due" is inherent in such legislative approaches with all its nuances, perceptions, and subtleties. A number of agencies when polled, offered no objections to the payment of interest in those instances where the delay was due solely to the Government. It might be interesting at this point to mention that S. 1264, the Federal Acquisition Act of 1977, proposes a Section 511, which stipulates the inclusion of a clause in every contract which shall provide for interest to be paid on any amount due to the contractor for more than 30 days. We were instrumental in seeing this language being incorporated in the bill. Finally, our emphasis will be (1) to simplify the overall payment process, (2) to consolidate payment forms and make procedures more uniform, and (3) to consider the recommendations of the CFPP concerning progress payments, invoicing and payment procedures.

Thank you again for this opportunity to offer comments on this significant procurement-related issue. I look forward to the ensuing panel discussions.

OVERVIEW OF CASH MANAGEMENT REGULATIONS
BACKGROUND

Daniel McGrath, Jr.
Director, Special Financing Staff
Department of the Treasury

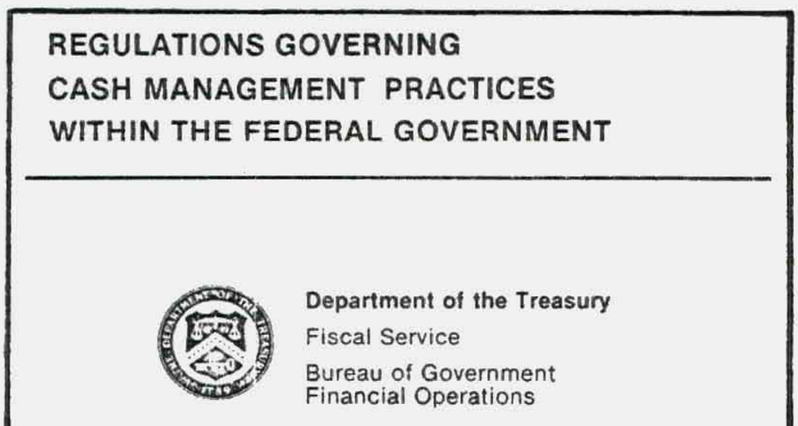
Good afternoon. Before I begin my presentation, I want to say that I hope the enthusiastic and positive attitude exhibited by all of you this morning continues through the afternoon and further to when you leave here today. Why? Because a workshop, especially one on a subject as important and of such major concern as cash management, can only be considered a success by the positive results accomplished. As I look out at this tremendous attendance, I recognize your presence is indicative of your real concern for good cash management and your interest in how it can be achieved.

We at Treasury are very encouraged by the significant increase in the emphasis placed on effective management of cash as a resource in the Federal sector. The attention focused on Federal cash management by President Carter and his Administration has a great deal to do with this emerging spirit. Further, the impetus this executive direction has provided to other Federal departments and agencies has greatly increased an awareness of the concern that Treasury has long had for improving cash management. We are confident that with continued support and cooperation, the management of the Government's cash will become more and more effective.

The higher costs of money since the mid-1960's has greatly increased the need for improved management of Federal cash resources since effective management results in reduced costs of money, as manifested in reduced interest costs. The Treasury Department, acting as the banker for the Federal Government, borrows to finance deficits or liquidity shortages and must bear the service cost of the Federal debt. Because good cash management means deriving maximum benefit from our cash resources, it follows that cash is a valuable asset that should be productively worked through the acceleration of receipts, proper timing of disbursements, and investment of surplus balances. Like any asset or resource necessary for continuation of an ongoing concern, cash has its limits and constraints. Recognition of this aspect of cash as a limited resource is a vital consideration which emphasizes the necessity for improving cash management.

Consequently, I am pleased to have the opportunity to speak with you today about the purpose, rationale, and design of Treasury's regulations governing cash management practices within the Federal Government. Following my presentation, three members of the Banking and Cash Management area of the Bureau of Government Financial Operations, at the Treasury, will cover the finer points of the regulations concerning deposits, disbursements, and foreign currency. To correspond with my presentation, I have slides that will aid in providing an overview to the regulations.

The Treasury Department has primary responsibility for cash management in the Federal Government. Thus, it is charged with the general duties of supervising and managing the Government's finances. This means taking an active role in prescribing rules and regulations to effectively control the manner in which the Government handles its financial transactions.



Slide 1

The Bureau of Government Financial Operations is housed in the Fiscal Service, which is under the direct supervision of the Fiscal Assistant Secretary. The responsibilities of the Fiscal Service, in terms of its authority regarding cash management practices of Government agencies are:

- To administer Treasury financing operations.

- To serve as liaison between the Secretary of Treasury and other agencies with respect to financial operations.

- To direct the performance of the fiscal agency functions of the Federal Reserve Banks.

- To supervise the current cash position of the Treasury and depositaries, and the handling of investments of trust and other accounts.

Treasury fulfills these responsibilities primarily through the issuance of department circulars. These documents are usually written as broad policy statements and supplemented with detailed procedural instructions published in the Treasury Fiscal Requirements Manual.

VOLUME I

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

OFFICE OF THE COMMISSIONER

March 31, 1978

TREASURY FISCAL REQUIREMENTS MANUAL FOR GUIDANCE OF DEPARTMENTS AND AGENCIES

TRANSMITTAL LETTER NO. 241

Purpose—To release I TFRM 6-8000, "Cash Management"

Slide 2

Transmittal Letter No. 241 was issued this year by the Office of the Commissioner, Bureau of Government Financial Operations, on March 31. Its purpose was to release Chapter 8000, entitled "Cash Management." Chapter 8000 is contained in Part 6 ("Other Fiscal Matters") of Volume I of the Treasury Fiscal Requirements Manual.

CHAPTER 8000—CASH MANAGEMENT

Table of Contents

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Here is a glance at the table of contents of the Chapter including the section number and corresponding title. I will briefly speak about each section in the order as they now appear before you. You will note that the Appendix to the Chapter is Treasury Department Circular No. 1084. This Circular established the policy regarding Federal cash management. Chapter 8000 supplemented the Circular to provide the detailed fiscal instructions for implementing its provisions.

Section 8010—SCOPE AND APPLICABILITY

A. Chapter 8000 is applicable to all Government departments and agencies whose financial transactions affect the cash account of the Treasury.

B. Chapter 8000 prescribes the procedures to be observed by affected Government organizations when

- developing regulations, systems, and procedures
- conducting financial activities.

C. Chapter 8000 provides the guidelines for use in establishing effective cash management practices.

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Section 8010 of Chapter 8000 sets forth the scope and applicability of the regulations. As you can see, Chapter 8000 is applicable to all Government departments and agencies whose financial transactions affect the cash account of the Treasury. To assure effective management of the Government's cash, the procedures prescribed by this Chapter are to be observed by affected organizations when they are developing regulations, systems, and procedures, and conducting their financial activities; namely, billings and collections, deposits, disbursements, cash advances, cash held outside the cash account of the Treasury, and those involving foreign currency. The Chapter also provides the guidelines for use in establishing cash management practices.

Section 8015—AUTHORITY

Treasury Department Circular No. 1084—December 29, 1976

A. Issued under 5 U.S.C. 301 and 31 U.S.C. 484, 492(a), 492(c), and 1002.

B . Purpose

- Establish the policy regarding cash management practices within the Federal Government
- Broaden Treasury's overview of agencies' cash management practices
- Establish the requirements pursuant to which Government agencies will conduct their activities involving the Government's cash so as to
  1. maximize the amount of cash available, and
  2. preclude unnecessary borrowing

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On December 29, 1976, Treasury released a comprehensive policy statement (appropriately termed an "umbrella document") encompassing the whole scope of Federal cash management. One of its primary purposes was to broaden Treasury's overview of agencies' cash management practices. Circular No. 1084, which I previously noted as the Appendix to Chapter 8000, required that agencies conduct their government cash activities so as to maximize the amount of cash available to Treasury on a continuing basis, while precluding unnecessary borrowing, and to give full consideration to the earning value of cash balances in determining the cost/benefit relationship on financial decision. The Circular was issued pursuant to authority in the United States Code.

Section	Title
8020	Billings and Collections
8030	Deposits
8040	Disbursements
8050	Cash Advances
8060	Cash Held Outside Treasury
8070	Foreign Currency

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Here is what could be called the "meat" of the regulations themselves--where the need for improvement in cash management is highlighted.

Section 8020 states that billings are to be prompt and clearly indicate the requirements for timely payment. Agency collection systems should consider the volume and character of collections and the availability of cash to the Treasury and should include procedures for prompt collection of receivables. Any contract or agreement which governs the sale of goods or services to an organization outside the Government should include a payment schedule.

Deposits of funds (Section 8030) for credit to the account of the Treasury are to be made as expeditiously as possible. To this end, deposit systems are to incorporate procedures which will allow for separation of the flow of receipts from the flow of documents at the earliest processing point. The Treasury Financial Communication System (TFCS) may be utilized for the receipt of deposits, and will be required to be so used when it is deemed warranted by the Fiscal Assistant Secretary of the Treasury.

The regulations concerning disbursements (Section 8040) require that an agency's payment system make payment by the due date specified in the invoice, provided that the related goods or services have been received. The system is to also incorporate procedures which allow an agency to take advantage of cash discounts as a matter of routine. The TFCS is to be utilized by agencies to effect payments only with the prior approval of the Fiscal Assistant Secretary.

The responsibility for monitoring cash advances under Federal grants (covered in Section 8050) remains with the grantor agencies. Chapter 8000 restates current Treasury requirements in this regard and references the appropriate regulations which govern these cash advances.

Section 8060 which pertains to cash held outside the Treasury prescribes regulations for two types of cash holdings. Cash held at personal risk, including imprest funds by disbursing officers and cashiers, is held pursuant to prior Treasury fiscal requirements. Agencies must periodically review such funds to ensure that the balances are commensurate with actual needs and do not exceed maximum limitations. All other cash held outside the Treasury should be controlled by the appropriate agency to ensure that any portion in excess of immediate disbursement needs is withdrawn from the account and deposited with Treasury. Where fund balances are maintained on a demand basis and may by law bear interest, agency procedures should require that the highest interest commensurate with administration of the account be obtained.

The section on Foreign Currency, 8070, reflects the Treasury's cash management policy as it relates to the purchase, custody, deposit, transfer, sale, and utilization of foreign exchange. The designation of financial institutions to maintain U.S. Government operating accounts and operating account balance limitations are also covered.

Section 8080—RESPONSIBILITIES OF AGENCIES

Paragraph	Title
8080.10	General
8080.20	Regulations
8080.30	Review
8080.40	Reports to the Treasury

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It is the responsibility of every department and agency subject to these fiscal requirements to incorporate these cash management principles in each of the organization's financial systems as well as in the procedural requirements for such systems. They should also be made an integral part of the agency's comprehensive audit program.

The development of agency cash management regulations and procedures was to be completed as of the end of last month, 6 months after the release of Chapter 8000. The agency regulations are subject to the review and approval by the Commissioner of the Bureau of Government Financial Operations, as are copies of the agency's internal audit reports relating to cash management. Methods for monitoring the agency's cash management practices are to be established not later than 3 months after the completion of the agency's written regulations. Periodically, but at least once a year, the agency is to review its cash management practices and furnish documentation covering these reviews to the Commissioner.

Section 8090—WAIVERS, EXEMPTIONS, AND OTHER APPLICABLE REGULATIONS

Paragraph	Title
8090.10	Waivers
8090.20	Exemptions
8090.30	Other Applicable Regulations

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Waivers and exemptions, Section 8090, to specific provisions of Chapter 8000 should be submitted to the designated staff in the applicable section to be waived or for exemption purposes. An important point to note within this Section is that the provisions of this Chapter are designed to supplement existing regulations bearing on the key elements of cash management covered in the fiscal requirements and do not relieve compliance with OMB, GAO, and other Treasury regulations.

Section 8095—INQUIRIES

Bureau of Government Financial Operations
Department of the Treasury
Treasury Annex No. 1
Washington, D.C. 20226

- Banking Staff
  (Telephone 202-566-5665)

- Foreign Currency Staff
  (Telephone 202-566-5183)

- Special Financing Staff
  (Telephone 202-566-5125)

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General inquiries on the Chapter should be directed to the Special Financing Staff. Specific questions concerning provisions, requests for waivers and exemptions, required reports, and supporting data should be made to the appropriate staff noted in each section. Also provided is the address of the Bureau and the telephone number of these offices.

Substantial savings to the Government are possible through the judicious use of cash management techniques. Accomplishing the goal for effective management of the Government's cash can only be realized with continued top-level support, joint efforts, and cooperation from us all. Good cash management deserves our wholehearted professional and personal support because like our natural resources, the funds in Treasury are not without limit.

OVERVIEW OF CASH MANAGEMENT REGULATIONS ON DEPOSITS

Charles Schwan
Director, Banking Staff
Department of the Treasury

By now I'm sure you've heard any number of definitions of cash management. But don't worry--I've only 10 minutes of your time and I'm not going to waste much of it on definitions. Plunging straight ahead, Flanigan and Newsom, in an article which appeared in the April 1975 issue of The Magazine of Bank Administration defined cash management as "including the techniques an organization has for monitoring the flow of funds, both into and away from the organization. More precisely, the techniques are aimed at speeding up the handling and collection of receipts and, within the confines of compatible business relations, slowing the company's payments to other parties. The successful application of these two approaches will provide, at any time, a larger cash balance than would otherwise exist."

The Handbook for Modern Accounting defines cash management as including four major functions: (1) determination of minimum cash balances, (2) effective borrowing, (3) advantageous investment of excess cash, and (4) acceleration of cash flow. The common thread running through the two definitions I've just given is the acceleration of cash receipts, and it is this function that I will be discussing with you in the remainder of my time.

Why should we be concerned with the acceleration of cash receipts? The answer is obvious and one that I'm sure this audience knows full well--the primary advantage of the use of techniques aimed at speeding collections has to do with the time value of money; the sooner remittances are routed through the mailing and banking channels, the sooner the

Government (or any recipient of funds, for that matter) will have funds available for investment or disbursements, thereby reducing the need for borrowing to cover cash shortfalls. However, in accelerating cash flow, one must bear in mind the associated costs.

Let me give you a few examples of portions of the Government's cash flow to illustrate the value of accelerating collections:

1. The Internal Revenue Service collects $60 billion annually at its 10 Service Centers scattered throughout the United States. Let's assume that from the day of receipt to the day of deposit, it takes the Service Centers an average of 4 days to deposit their collections. Accelerating the processing of the receipts within the Centers so that remittances flow through one day faster yields interest savings (computed at 6 percent) of approximately $14.5 million. An acceleration of 2 days would yield savings of $29 million.

2. The Bureau of Alcohol, Tobacco, and Firearms collects $8.2 billion annually, and with an acceleration of 3 days at 6 percent would yield $6 million.

3. The total collections for Customs Service is about $6 billion, and accelerating these receipts for 3 days at 6 percent would save over $4 million.

The total figure for these three examples is approximately $40 million. This figure may not sound like a great amount when compared to the annual budget; however, it is still a significant amount of potential savings.

How can we accelerate the collection of Government receipts? The most efficient way to accelerate the collection of receipts is to use the Treasury Financial Communications System (TFCS). The TFCS is an electronic funds transfer system (or a wire funds transfer system, whichever term is more familiar) by which the Treasury can receive funds almost instantaneously, initiated by any bank in the country. Without getting overly technical, the Treasury is "on line" with the Federal Reserve Bank of New York, that is, we are electronically hooked up with the Fed's Computer as if we were a major New York City bank. It is as easy for a bank on the West Coast to wire-transfer its customer's funds (for lease payments, loan payments, gold sales, etc.) to a Treasury account as it is to transfer those funds to its customer's account at Chase Manhattan. I'll discuss the flow of funds over TFCS in more detail in just a few seconds, but first I'd like to indicate the cash management benefits of TFCS over check payment.

The TFCS eliminates:

1. Use of the Postal Service--substantial time can elapse between the drop of a check in the mail box and the receipt when an agency centralizes its receipts at one point, for example, Washington, D.C.

2. The actual handling of receipts--eliminates the 3 to 4 days some large offices spend moving receipts through their accounting system before the checks are deposited.

3. Check clearing time--many large corporations have refined remote disbursing--that is, the practice of paying customers with checks drawn on distant banks--to a science. It is by no means uncommon for us on the Banking Staff, when reviewing a West Coast banking arrangement (e.g., Customs) to spot a large number of checks drawn on East Coast banks.

Let's take a second to look at Exhibit A on how TFCS works. The agency first submits to the customer a bill or invoice stating that the payment is to be made by wire transfer, and also attaches instructions on how to make the wire transfer. The customer then notifies the bank of the payment. If the customer's bank is a member of the Federal Reserve System, it will initiate the wire transfer without any problems. If the customer's bank is not a member of the Federal Reserve System, it must use a correspondent bank which is a member. The wire transfer flows through the local Federal Reserve Bank and then to the Federal Reserve Bank of New York, before coming to Treasury computer in Washington, D.C. At the end of the day, if this was the only wire transfer message for the agency, a deposit ticket for the amount of the wire transfer and a support listing of the message received for that particular agency are mailed to the agency. If the agency needs to have more timely or same-day notice of the funds transfer, we can make arrangements for the agency to use a terminal to dial up with Treasury computer to obtain the agency's deposit information throughout the day, or the agency can make arrangements with us to telecopy the information to them. Exhibit B is a list of users we have converted to TFCS this year alone. Before using TFCS, your agency must obtain approval to use the system by contacting Treasury and filling out a questionnaire.

In certain cases, TFCS is impractical, such as for small dollar items, payments from individuals, and when collections are too concentrated on particular days for TFCS. (An example is the volume of FDIC payments that are due at a particular time, but because of TFCS limited backup system, we are not able to handle the volume.) If TFCS is impractical, then we recommend that you consider the use of:

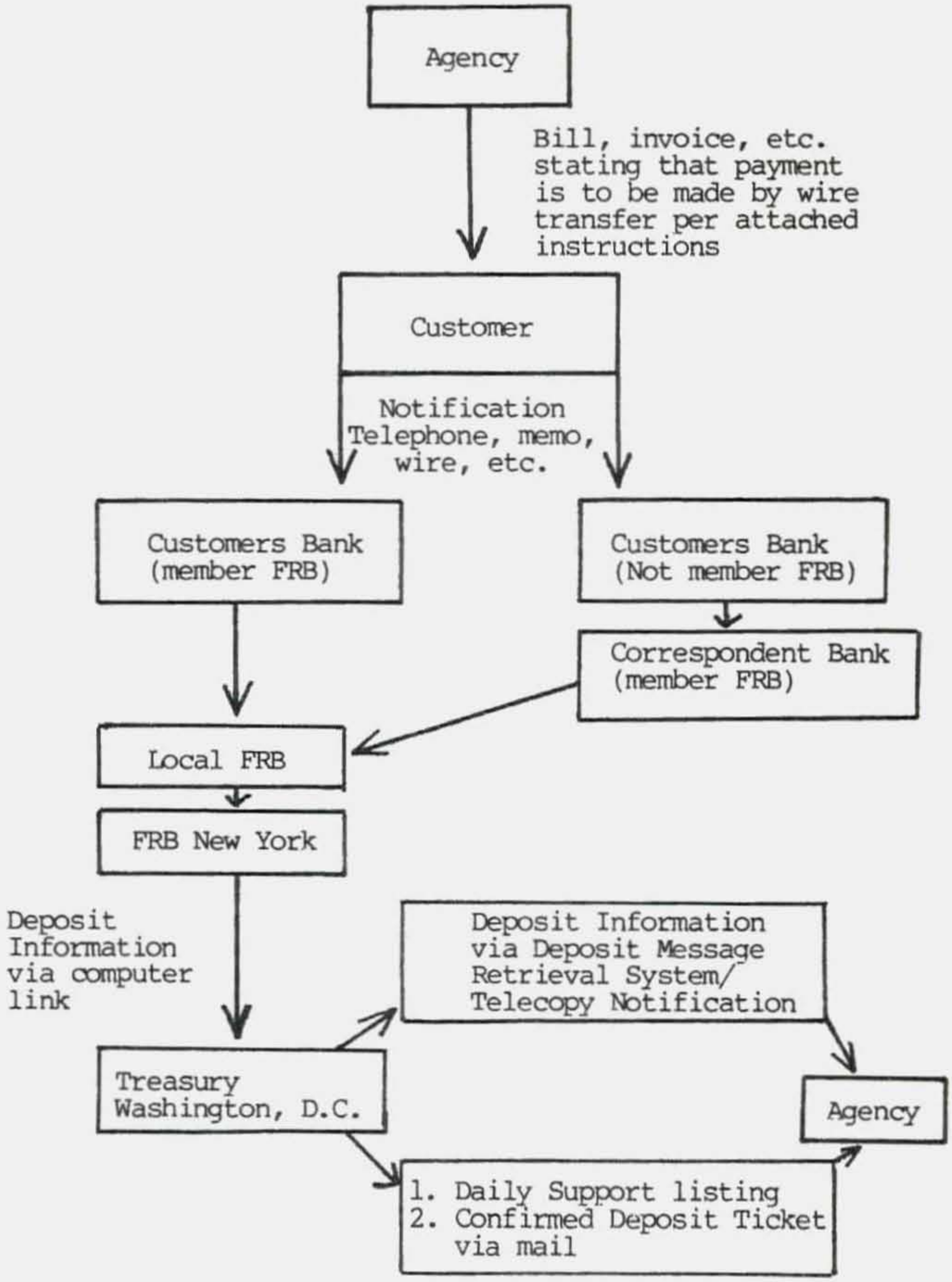
1. Lock box. This will reduce all three delays. When you use lock boxes, the agency does not receive the checks, but the bank gets the check directly and sends a remittance statement to the agency. The deposit gets into the collection stream immediately.

2. Decentralized concentration banking. Instead of having your collections come to the headquarters office, let them flow to your regional offices which will cut the delay in mail time going to and from your central office.

In closing, I would like to remind you that before you initiate any major changes in collection systems or procedures, you must submit a cost/benefit analysis and request approval from the Banking Staff at least 90 days prior to implementation date.

Thank you very much.

TREASURY FINANCIAL COMMUNICATIONS SYSTEM (TFCS)



For further information please contact Michael Backert on (202) 566-2379.

Treasury Financial Communications System (TFCS)

Agencies converted to TFCS this past year

Receipts

Veterans Administration - proceeds from sales of VA portfolio loans $290 million/50.

Dept. of the Treasury (Public Debt) - prepayments of receipts from security sales $200,000 - $2.1 million/250.

Dept. of Transportation (Fed. Railroad Admin) - Loan guarantee payments $2.5 million/13.

Dept. of Defense (DSAA; Arlington, VA) sales of defense articles and services to foreign countries $300 million/500.

Dept. of Defense (DSAA; Denver, CO) - deposits by U.S. contractors relative to foreign currency exchanges under the F-16 program $50 million/400.

NASA - deposits under launch services agreements $20-30 million/4.

Dept. of the Treasury (Government Financial Operations (GFO) - payments under the Gold Sale program $500-550 million/3000.

Dept. of the Treasury (GFO) - monthly deposits of Treasury Balance earnings by the FRB's $6 billion/144.

Dept. of Defense (Denver, CO) - foreign military sales $7 billion/2000.

Dept. of Commerce (Nat'l. Oceanic and Atmospheric Admin) - receipts of fishing permit fees and foreign reimbursable agreements $5 million/16.

Postal Service - Transfers from concentration banks $18.02 billion/5700.

Dept. of Energy - sales of crude oil and liquid products $600 million/1000.

Dept. of Interior (Br. of Indian Affairs) - income from Indian Trust Land $145 million/2600.

GSA - stockpile sales $150 million/600.

Dept. of Commerce (Maritime Admin) - receipts of guarantee fees for ship construction or reconditioning $33 million/1400.

Dept. of the Treasury (Customs Service) - taxes on imported alcoholic beverages $150 million/375.

Tennnessee Valley Authority - energy sales $900 million/1200.

Total Estimated Dollars/Transactions

Receipts - $34.2 billion/19,250

For further information please contact Michael Backert on 202/566-2379.

OVERVIEW OF CASH MANAGEMENT REGULATIONS ON DISBURSEMENTS

Bruce Budlong
Senior Advisor, Cash Management
Department of the Treasury

So let's talk about disbursements. To set the stage, I'd like to begin my presentation with a few words about the impact of disbursements on the overall cash management of the Government, follow with development of cash management regulations, the extent and timeliness of disbursements, and the concerns expressed by agencies over our disbursement regulations.

I am sure by now we have all been made aware that the overall Government cash flow should exceed a trillion dollars 1/ in FY 1979. We, as Government cash managers, will have over a trillion dollars flowing through our hands this year, either in the form of receipts or disbursements. And the difference in timing between the receipts and disbursements materially impacts on our borrowing and the interest on the Public Debt. This interest represents the fourth largest outlay by function in the budget, amounting to an estimated $49 billion 2/ for FY 1979. That amounts to about $10 billion more than the direct compensation to be paid to the entire civilian work force in FY 1979.3/ Hence, the need for cash management regulations.

Several years ago I participated in a JFMIP-sponsored money management study which concluded that the Government as a whole was, to put it mildly, less than efficient in the handling of its cash. One of the underlying reasons for this was that the Treasury was responsible for supplying the necessary cash to support Government programs and any costs associated with the acquisition of this cash was reflected in the Treasury's budget. Therefore, there was no incentive to agencies to concern themselves with the issues of cash management.4/ JFMIP felt something should be done about it and Treasury, as managers of the Government's cash, drafted the necessary regulations. I would like to emphasize an important point at this time. The regulations were drafted and issued by Treasury. They are even called Treasury regulations. However, we all had a hand in their development, either directly or indirectly. They were formulated in part on the information gathered in the JFMIP money management study which was comprised of representatives of many agencies and based on discussions with officials in just about every major agency. In addition drafts of the regulations were reviewed and commented on by JFMIP, OMB, GAO, DOD, the Office of Federal Procurement Policy, and the President's Reorganization Project.

The regulations 5/ contain broad cash management concepts and principles, and provide the framework within which each agency will develop its own regulations. In some instances the framework may be too broad, in others, too narrow. We have received feedback indicating we were too restrictive on some issues, too general on others. Sometimes both directions refer to the same issue. Our position--let us know if you have problems. Specific issues may warrant waivers. Broader issues may result in the need for revisions. We need to know about your experience.

When we talk about disbursements, what are we really talking about? In FY 1977, 600 million checks were issued by Treasury; 100,000 vouchers were paid by FRB's under letters of credit, and 65 million payments were processed by wire.6/ In FY 1979 outlays are estimated to exceed $500 billion. The timing of many payments is established by law or regulations and allows little or no discretion with respect to payment dates. However, approximately 50 percent of the dollar volume of all Government disbursements is subject to some degree of control with respect to timing by Government officers.7/ This amounts to an average of over $1 billion per day and as you know, this control rests not with the Treasury, but with the Government agency initiating or making the disbursement. GAO's recent survey 8/ indicated that approximately 30 percent of the Government's bills (about 18 percent of the dollar volume) were paid late, 45 percent, early.

The Treasury is advocating controlling disbursements, paying bills when due, not early or late. Payments continually made early increase our overall costs and provide little incentive for discounts. Late payments advertise Government inefficiency, destroy public condidence, and foster criticism of the Federal sector.

I'd like to use the balance of my time to address some of the concerns expressed by agencies over our disbursement regulations. The first concern raised by agencies as well as recipients of Federal payments through their congressional representatives is over the potential impact of delaying payments to small businesses. We are not advocating the delay of payments, but payment when due as specified in the invoice, contract, or other agreement. Only when no payment date is specified do we advocate payment 30 days from receipt of the invoice, the standard payment cycle used in private industry. The only factual information we have concerning payments to small businesses is from the GAO survey which indicated that 40 to 53 percent of payments (depending on whether or not the business was participating in the Small Business Program) were received later than 30 days.9/ Our regulations should improve the timeliness of payments to small business.

Another issue raised concerned the reason for scheduling the issuance and mailing of checks to be received by the payee as close as administratively possible to the due date specified in the invoice, contract or other agreement. Some due dates may not be practical in terms of the lapse time from receipt of the invoice. As the mail time and the geographical location of the recipient and disbursing office will vary, we tried to allow agencies some degree of latitude based on their experiences. Also, since we expect payments to the Government to be received by the due date, we feel equal consideration should be given to the transit time of payments by the Government. Discounts involve earlier payment and are normally valid if made, not necessarily received, within the discount period. Therefore, we specify such payments should be made on the last day of the discount period. Agencies have been requested to take discounts offered at rates equivalent to or greater than 1 percent in 10 days, net in 30 days, have the option between 1/2 and 1 percent, and should refrain from taking discounts of less than 1/2 of 1 percent. Greater simply means a higher percentage rate or a longer discount period in relation to the total payment period. The concern is with the value of the funds for the number of days the payment is made earlier than required as compared to the cash value of the discount.

Concerning late payments, we hope there won't be any when all factors are in order. If there are, our requirements are that the agencies comment on the extent of such payments and the corrective action taken in their reviews of the agency's cash management practices.

The reporting of large disbursements ($10 million or more) is only applicable to agencies that do their own disbursing. We receive reports from our own disbursing centers.

Should you have any questions concerning our disbursing regulations I'd be happy to discuss them with you at your convenience. The appropriate address and telephone number is included in the inquiries section of the cash management regulations.

In conclusion I'd like to leave you with one final thought to carry back to your offices. If you want to know the impact of what you can do in the way of disbursements to further good cash management, think about this. If we as Government cash managers can incorporate changes in our systems that will positively influence our disbursement cycle by just one day for the year, based on current figures, we can save enough to pay the salaries of everyone in this room for the next 10 years.10/ Thank you for your time.

Footnotes

1/ The U.S. Budget in Brief, FY 1979, page 3, Receipts 440 Billions, Outlays 500 Billions. Net of refunds which amounted to $36 billion in FY 1977.

2/ The U.S. Budget in Brief, FY 1979, page 75.

3/ Special Analysis Budget of the United States Government, FY 1979, page 207.

4/ Money Management Study, January 1976, page 1.

5/ I TFRM 6-8000, Section 8040.

6/ Annual Report of the Secretary of the Treasury, FY 1977, page 154.

7/ Outlays plus refunds and offsetting receipts minus fixed payments such as social security, Federal salaries, public debt interest, Veterans Administration benefits, revenue sharing, Civil Service Commission retirement, and Railroad retirement. Special Analysis, Budget of the U.S. Government, FY 1979, table 14, pages 33-34 and page 207.

8/ The Federal Government's Bill Payment Performance Is Good but Should Be Better, February 24, 1978, pages 3 and 24.

9/ The Federal Government's Bill Payment Performance Is Good but Should Be Better, February 24, 1978, page 20.

10/ Approximately 300 people, average salary GS-13/1 (approximately $27,000). Disbursement estimated at $1.08 billion per day, September 30, 1978, bill rate, 7.668 percent.

OVERVIEW OF CASH MANAGEMENT REGULATIONS ON FOREIGN CURRENCY

Robert J. Ewing
Director, Foreign Currency Staff
Department of the Treasury

The Foreign Currency Staff is responsible for the designation of commercial banks overseas as depositaries and financial agents of the United States Government. We work with various Government departments and agencies to establish cash management systems which will meet the needs and objectives of each agency with respect to the custody, purchase, deposit, and disbursements of foreign currency. What I will try to do is highlight the overseas cash management procedures as covered in Part 6, Chapter 8000 of the Treasury Fiscal Requirement Manual. The main areas of interest are 1) determining the most beneficial banking arrangements, 2) limitations on overseas balances maintained with the banks, 3) the purchase and acquisition of foreign currencies, and 4) the collection and disbursement of foreign currency deposits.

Today, there are approximately 285 banks overseas designated as depositaries and financial agents of the U.S. Government. The establishment of banking arrangements in overseas areas is complex and usually expensive. Therefore, in order to determine the most beneficial banking arrangements, we have found that utilizing a competitive bidding process is best. We look at three areas of services: 1) minimum required services which cover the processing of checks and deposits, providing a bank statement, and honoring payments in remote locations, 2) customary banking practices such as payment of interest and preferred exchange rates, and 3) other special services which may be available such as telex cost, funds transfer, and overdrafts. Based on competitive bids which meet the criteria, we have found that Government agencies are able to obtain a full range of services at the least possible cost.

Just recently the Defense Contract Administration Services Region (DCASR) in Cleveland obtained competitive bids from five major banks of Canada for handling the Canadian dollar account. Under the bidding process the Toronto Dominion Bank was selected, thus improving the existing arrangement by more than $65,000. The improvements of the cash management procedures in Canada over the past two years has resulted in annual savings of approximately $400,000.

Another important area of overseas cash management centers around local currency checking account balances. These accounts are funded by Disbursing Officers and are used to meet local currency expenditures. In order to control the balances, we have placed limitations on the accounts. These limitations are designed to 1) minimize the amounts of local currency maintained in the accounts, 2) minimize losses caused by rate devaluations, and 3) avoid premature drawdowns on the Treasury. These limitations on premature drawdowns result in interest savings to the Government and also have a favorable impact on the balance of payments.

For example, the Paris Regional Finance Center, which purchases foreign currency for approximately 82 countries, coordinates the funding of the bank accounts in such a manner that the accounts show a negative accountability of approximately $15 to $18 million. That is $15 to $18 million less than the Treasury has invested in foreign currency.

In order to keep our operating account balances at a minimum level, we have established guidelines whereby the balances in the accounts should not exceed estimated disbursing requirements for a two-to three-day period in countries where the currencies can be readily obtained. If the foreign currencies are not readily available, however, we have generally set a guideline that the checkbook balances should not exceed disbursing requirements for a seven-day period. The seven-day period should not be exceeded unless a waiver is given by Treasury. This guideline is a substantial change from previous Treasury requirements whereby a thirty-day balance could be maintained in an account.

Normally, when funding countries are in Africa, the Middle East, or in other remote areas, it may be necessary to exceed guidelines. In these cases, we assist the agencies which have responsibility for funding by providing a waiver or by making special arrangements to meet their individual needs and requirements. Normally, though, the funding requirements can be met.

Another area which requires special attention is the purchase and acquisition of foreign currencies. Today, more than ever, it is important that we obtain our foreign currency requirements at the best possible rates. The military by far has the largest requirements for the purchase of foreign currencies, accounting for approximately 80 percent of the total purchases of over $5.3 billion annually. Where substantial purchases are made in countries such as Germany, the United Kingdom, Korea, Japan, and the Philippines, there are government-to-government agreements or other specialized agreements with banking institutions for the acquisition of foreign currency. During the past year we have been working with the military commands in Europe, reviewing more effective purchasing techniques as well as the maintenance and control of the balances.

The State Department plays a major role in the maintenance and control of banking arrangements overseas through Regional Finance Centers. These Regional Finance Centers are located in Paris (which services Europe, Africa, and the Middle East); Bangkok (for Asia and the Far East); and here in Washington (Treasury handles the accounts for North and South America).

When foreign currencies are purchased on the open market at non-fixed rates, the Treasury requires that competitive bids be solicited from at least three sources. This solicitation may include canvassing markets outside the countries where the currency is being purchased in order to obtain the most favorable rates. The Paris and Bangkok Regional Finance Centers are capable of canvassing the markets to obtain the necessary quotes, so as agencies need to make disbursements in foreign currency, we would recommend that they contact one of the Centers to determine if the Regional Finance Centers can meet their requirements.

For example, the Paris Regional Finance Center has a "currency purchasing center" which employs trained personnel to solicit the various markets, such as Paris, Zurich, and London, for the best rates obtainable. The system is set up so that simultaneously, six or more banks are contacted to obtain, say, a quote on the English pound. Based on the best rate they can obtain, they then enter the market and purchase from the bank which provided the best quote. This procedure provides the flexibility to shop around and obtain the best rates.

The Regional Finance Centers overseas are also capable of writing checks and paying bills. We have established a system in Treasury whereby once a voucher has been certified it can be forwarded to the Regional Disbursing Officer here in Washington to effect the payment overseas. The Washington Disbursing Center will then take the necessary action to forward the payment voucher to the Regional Finance Centers for payment.

One thing we have tried to do in the payment of obligations, and it is a little more difficult overseas, is to time the disbursement with the payment of the bill. Where we can, an agency should strive to pay the bills when they are due, and not before. Undoubtedly, overseas there are timing and logistics problems, however, to the extent possible we would like for the agencies to keep this factor in mind. Once a voucher has been submitted for payment, the agency appropriation will be charged for the amount equivalent to the purchase price obtained by the Finance Centers.

The collection of foreign currency deposits is another area of our concern. Where possible, we try to deposit the collection to the bank that maintains the local currency account. (This practice eliminates the need to purchase the currency from the open market, and also avoids exchange charges on the collection.)

In this regard, it is not always easy to coordinate several disbursing officers' actions in a particular country. We ask that agency disbursing officers cooperate with the State Department officials as well as the military disbursing officers to coordinate the receipt of excess currencies coming in. This avoids purchasing in one area and having an excess currency in another. In Korea there is an excess inflow of currencies from P.L. 480 Agreements, from the sale of surplus agricultural commodities, and in this case, the funds are credited from the agriculture accounts and sold to the military, thus delaying dollar drawdowns on the Treasury.

Where there is not an immediate use for all of the excess funds generated by collections, every effort should be made to establish an interest bearing call account where the funds can remain until they are needed to meet disbursements. If any unusually large deposits are expected, the Foreign Currency Staff should be advised and we will then take measures to work with the agency for the investment of the currencies for a longer period.

There are other basic guidelines which affect the foreign area:

Unless otherwise authorized, no agency should purchase foreign currency from a source outside the Government--except when the currency is not available from accounts maintained by the Treasury. We sometimes have difficulties in not being aware of an agency having made a foreign contract funding arrangement with a commercial bank. Such specialized arrangements are quite expensive as compared to using the in-house procedures already established.

Also, there are countries that are labeled "excess and near-excess" such as Egypt, India, Pakistan, and Burma, which require special treatment. Because we have accumulated large currency balances ranging from two to fifteen years' supply, whenever possible, obligations in these countries will be made payable in the local currencies rather than in U.S. dollars. Special contracting provisions also apply in countries designated as excess or near-excess.

This is a cursory overview of what is contained in the foreign currency cash management section of the Manual. Often there are unusual situations which require special handling such as funding of the F-16 jet fighter aircraft program whereby each country is contributing to the program. In such cases, we attempt to obtain the most beneficial arrangements possible to meet the circumstances. In order to meet the many varied needs and requirements of Government agencies, our staff must deal with the complex situations presented in overseas areas.

I hope this brief summary has given you a basic understanding of foreign currency cash management operations. If we can be of any assistance, please do not hesitate to get in touch with us. We would be happy to assist you in any way we can.

CASH MANAGEMENT IN OPERATION WITHIN THE DEPARTMENT OF DEFENSE

John Crehan
Director for Accountin, Policy
Department of Defense

I am pleased with the opportunity to participate in this workshop. The information provided by the preceding speakers was thought provoking, and I am hopeful that my comments will contribute to the success of this meeting. I will describe the experience of the Department of Defense in integrating the Federal cash management principles into its operations.

In order to acquaint you with our experience and to put my comments in context, I will:

- -Provide some personal viewpoints on the Federal cash management improvement initiative.
- -Identify the cash management principles used as the basis for the improvement actions taken and those that are planned.
- -Describe some of the concerns with the implementation of the new procedures in Chapter 8000, Part 6, Volume I of the Treasury Fiscal Requirements Manual.
- -The approach used to determine the actions required to comply with the manual.
- -Describe the actions taken and planned to comply with the manual.
- -Inform you of some improvement actions being considered.

PERSONAL VIEWPOINTS

I would like to preface my comments with some personal observations of the overall Federal cash management effort. I am pleased with the Treasury's determination to publish the new policies and procedures in the Treasury Fiscal Requirements Manual (TFRM). The manual has established a Federal position on various controversial issues which should result in uniformity and reduce agencies' efforts in resolving related problems. As most of us know, from the JFMIP "Money Management Study" and GAO reports, cash management practices differed between agencies and, as we found, among components within the Department of Defense itself. For example, we found that various criteria and circumstances were used to determine the date of payment of an invoice when no payment due date was specified in a contract, agreement or the invoice. Our position even prior to publication of Chapter 8000 was that invoices should be paid on or about the 30th day after the invoice date or acceptance of goods or services, whichever is later with few exceptions (e.g., fast pay procedures, payment on the basis of certificate of conformance.) Although that was our position, it could have been inconsistent with the policies and practices of other Federal agencies dealing with the same vendors.

We were pleased to note that some of our recommended changes to the draft of Chapter 8000 were considered by the Treasury in the final publication, e.g., the taking of discounts of less than 1 percent in 10 days only if cost effective, reduction in the late payment charge from 1-1/2 percent to 3/4 of 1 percent for each 30-day period, requirement for the use of amount encoders only when an agency processes over 5000 items per day, and the elimination of the requirement to submit copies of all audit reports to the Treasury.

There were considerable apprehensions about the new policies in Chapter 8000 (draft) when initially received. We believe much of this was attributed to the need to revise long-standing procedures and practices. We think most of the apprehensions have been overtaken by the JFMIP Study, GAO criticisms, internal reviews and discussions, and most importantly the publication of Chapter 8000. Now actions are planned by Defense components to implement those portions of the TFRM that have not been implemented already.

Although specific cash management policies and procedures are provided in the Treasury Fiscal Requirements Manual for accounting, disbursing and review (e.g., audit) functions, we believe corollary guidance should be disseminated by the executive department (e.g., Office of Federal Procurement Policy) through other policy and procedure regulations to functions (e.g., procurement) responsible for implementing some of the new requirements. For example, Chapter 8000 requires contracts for sales to non-U.S. Government customers to include provisions establishing definite payment due dates and late payment charges. Also, the policy of paying invoices when due (not early or late) should be recognized in contract clauses, especially the policy of paying on the 30th day from the receipt of the invoice if no due date is specified in the invoice, contract or other agreement. Accordingly, we recommend that the Treasury pursue this matter.

CASH MANAGEMENT PRINCIPLES USED

Since I will describe our (DoD) experience in integrating the Federal cash management principles into the Department of Defense operations, I should identify those principles. The principles are, according to the President's Reorganization Study Design brochure entitled, "Strengthening Federal Cash Management," collecting money as quickly as it is due so that funds can be put to work rather than being tied up in paperwork, ensuring we pay bills on time--not early or late, and finally ensuring that the money that is accumulated is put to work by earning interest or by repaying short-term debts.

CONCERNS WITH THE IMPLEMENTATION OF THE NEW TFRM PROCEDURES

Although I indicated that the initial apprehensions about the new policies were overtaken by subsequent events, there are some concerns with the implementation of the procedures as planned.

- The date some procedures can be implemented by various Defense components, and very likely other agencies, may vary because of the degree of systems sophistication, systems design capabilities and priorities. Notwithstanding, we will endeavor to comply. Unless implementation is simultaneous in all agencies, there will be different practices applied to vendors which could generate complaints.

- Although the Treasury policies and procedures may achieve savings for the Treasury, there could be offsetting costs to the other agencies. For example:

1. Vendors may increase their prices if payments are made to them later than customary in the past, especially on contracts without specific payment due dates.

2. The costs of changing sophisticated accounting, disbursing, and automated systems and procedures may be very high.

APPROACH USED TO COMPLY WITH TFRM

After receipt of Chapter 8000, it was necessary to determine the extent of changes required to comply with the manual. To do this a review group, comprised of representatives from our major components, was organized in June 1978 to review policies, procedures and practices and to determine the actions already taken and those planned. The review was completed in August 1978 and a report was submitted to the Executive Director (Mr. Richard E. Cavanagh) of the Federal cash management project.

ACTIONS TAKEN AND PLANNED TO COMPLY WITH TFRM

The review group found that the Defense components have either established practices, or have planned actions which satisfy the Treasury requirements. I'll summarize the actions for each of the major areas contained in Chapter 8000. Most planned actions were scheduled for completion in October 1978.

A. BILLINGS AND COLLECTIONS (8020)

Insofar as the requirements for billing and collections are concerned, components have:

1. Centralized cash collections for foreign military sales (FMS) in Denver, Colorado, where a Federal Reserve Bank is located. This permits cash to be deposited directly and more expeditiously to the account of the U.S. Government. This expedited collections and deposits by an average of 3 days on about $5 billion and results in an estimated savings of $3 million on an annual basis.

2. Encouraged some foreign countries to use an electronic funds transfer (EFT) system in paying for

their FMS purchases and will make a concerted effort to increase the use of this technique. Increased use of the EFT system could expedite the collection and deposit of approximately $500 million per year.

3. Required foreign countries to pay 90 days in advance of delivery of goods and services which is authorized by law for foreign military sales (FMS). This results in the availability to Treasury of an average trust fund balance of $4.5 billion.

4. Required individuals and organizations outside of the U.S. Government to pay for goods and services in 30 days, or less, where customary.

Components are planning to:

1. Prepare and dispatch invoices within one working day after the billing office is advised that the goods have been shipped or released or the services have been completed.

2. Stipulate in all contracts, agreements or other formal payment arrangements a charge for late payments at the rate of 3/4 of 1 percent for each 30-day period or portion thereof.

B. DEPOSITS (8030)

Regarding deposits, components have:

1. Established rigid requirements, with minor exception, which meet or exceed the requirements in Chapter 8000.

2. Authorized commissary store officers to make deposits of cash sales receipts directly in a Treasury designated bank rather than delivering the receipts to a disbursing officer.

Components are planning to:

1. Separate collections received from the accompanying accounting documents at the initial stage of processing, whenever feasible.

C. DISBURSEMENTS (8040)

On actions concerning disbursements, components are planning to:

1. Pay invoices, bills, or any other documents which are authorized for payment by DoD components only when due.

2. Schedule the issuance and mailing of checks for receipt by the payee as close as administratively possible to the due date. If no due date is specified in contractual documents (excluding those requiring fast pay), the due date will be considered to be the 30th day from receipt of the invoice, provided that the goods or services have been received. If the good or services are not received by the 15th day before the due date of an invoice, payment will be made no later than 15 days from the receipt of goods and services, but not prior to the due date.

3. Continue to automatically take advantage of cash discount as a matter of routine; however, discounts amounting to less than 1/2 percent in 10 days will not be taken.

4. Disregard discounts up to the equivalent of 1 percent in 10 days, if analysis indicates that it is cost effective to do so.

D. CASH ADVANCES (8050)

Since cash advances are considered the least preferential mode of contract financing, DoD requires high level approval and charges interest on them. Therefore, relatively few cash advances are made in the Department of Defense.

Procedures which conform to these requirements have been implemented. Components have carefully timed cash advances to reach contractors at the time the funds are required to make payments.

E. CASH HELD OUTSIDE TREASURY (8060)

DoD has implemented procedures which satisfy these requirements, and additional improvements are underway.

Components have:

1. Published regulations and established procedures that:

   a. Require as a minimum, quarterly reviews of cash held by disbursing officers, cashiers and imprest funds to ensure balances do not exceed minimum needs and maximum authorizations.

   b. Require prompt withdrawal of excess balances and the prompt deposit of such funds with Treasury.

   c. Prescribe the method of computing cash authorizations; however, there is a need to revise the computation method.

2. Established a zero balance procedure for limited depository checking accounts which minimizes the amount of foreign currency held in overseas banks. Under this procedure, cash is deposited in the account at the end of each work day equal to the amount of checks written against the account during the day.

3. Prepositioned Treasury checks, instead of cash, with disbursing agent officers which are not cashed until cash is required. This avoids premature drawdown of Treasury cash balances.

4. Promoted the direct to bank deposit of military personnel pay which reduces mid- and end-of-month cash requirements.

   The Department of the Army is revising its procedures for ordering cash for military payrolls and for replenishing cash in disbursing officers' vaults, and planning to reduce, by $5 million, the amount of cash held by the central finance and accounting office in Europe.

   The Department of the Navy is revising its procedures for determining the cash needs for ships while afloat and in port, and planning to require each disbursing officer to annotate the statement of accountability with the amount of cash authorized to be held at personal risk. This will enable the report recipient to compare cash-on-hand with the authorized amount, and as a consequence take corrective action on excesses.

F. DESIGNATION OF FINANCIAL INSTITUTIONS TO MAINTAIN U.S. GOVERNMENT OPERATING ACCOUNTS (8070)

In order that the selection of financial institutions for maintaining U.S. Government operating accounts to be based upon the most beneficial arrangements, the Department of Defense has:

1. Established competitive procedures for the selection of institutions to operate overseas military banking facilities. Under this procedure, the original bids for providing these services were reduced by $7.5 million through the negotiating process.

2. Eliminated the compensating balance techniques for the operation of overseas military banking facilities except for the balance in a Spanish bank.

3. Eliminated the Deutschemark static account in Germany. About $14.7 million was returned to the Treasury from this action. It was estimated that this resulted in an annual interest saving of over $1 million to Treasury.

   The Department of Defense is negotiating the elimination of the $1 million compensating balance now required by a Spanish bank for its services.

G. RESPONSIBILITIES OF AGENCIES (8080)

Every department and agency must incorporate the provisions of the manual in their regulations, and must establish a system for reviewing, at least annually, their cash management practices.

Components have:

1. Audit and inspection organizations which review functional activities, procedures and practices involving cash management.

2. As a consequence of recent initiatives, advised audit organizations to emphasize, in their scheduled audits, the cash management requirements in the manual.

Components are planning to:

1. Incorporate, in their regulations, the provisions of Chapter 8000, Part 6, Volume I of the TFRM. To monitor the progress of planned actions, the components have been requested to submit status reports to the Office of the Secretary of Defense.

OTHER ACTIONS BEING CONSIDERED

In addition to implementing the provisions of the TFRM we have identified other opportunities for improvements which I will cover.

A. ALTERNATIVE METHOD FOR REIMBURSING CONTRACTORS FOR PAYMENTS MADE BY THEM UNDER THE OFFICE OF CHAMPUS PROGRAM

As some of you know, the Department of Defense has a program called "CHAMPUS," the Civilian Health and Medical Program of the Uniformed Services, whereby military personnel and their dependents are authorized to obtain medical services from civilian doctors and hospitals. This program is similar to the Blue Cross/Blue Shield Program most of us are enrolled in. The program is administered by the Office of Champus (OCHAMPUS) located in Denver, Colorado, (Fitzsimmons General Hospital). It contracts with organizations such as Blue Cross of California to pay doctors and hospitals for health care provided to military personnel and their dependents. In turn, OCHAMPUS reimbursed the contractors for the payments. It has been determined that the current payment system provides the contractors with a bank float which probably can be reduced.

Under the current system, the contractors notify OCHAMPUS of the amount of claims they have received from doctors and hospitals, and which they are ready to pay. Upon notification, OCHAMPUS advances funds to the contractors which in turn release checks to the doctors and hospitals. Under the current system, the contractors have a "bank float" between the time they receive funds from OCHAMPUS and the time the checks issued are redeemed by their banks.

OCHAMPUS is researching methods to minimize the float and it hopes to determine a method by about February 1979.

B. ESTABLISHMENT OF PAYMENT DUE DATE STANDARDS FOR PURCHASES OF VARIOUS GOODS AND SERVICES

Another facet of cash management which appears to offer opportunity for improvement is the standardization of the payment due date in contracts for the procurement of various goods and services. Currently, the Department of Defense has contracts, for goods and services such as facilities use, stevedoring indefinite deliveries, mortuary services, bakery and dairy products, laundry and dry cleaning services, shipment or storage of personal property communications and refuse services, which do not specify payment due dates; also, there are Defense acquisition regulation payment terms in contracts, for other goods and services, which are open to various interpretations insofar as the payment date is concerned.

A study will be made to determine whether the payment due dates for certain goods and services can be standardized. In addition, the study will encompass the current Defense acquisition regulation clauses to determine whether revisions would be beneficial. It is planned to have the study completed by November 1979.

C. CONSIDERATION OF THE TIME VALUE OF MONEY IN THE PURCHASE OF OIL

Another area which has prospects for reducing costs is in our purchases of oil. Currently, the Defense acquisition regulation does not permit consideration of the time value of money when evaluating competitive bids for oil contracts. Most oil suppliers quote a standard price and allow a discount for payment before the due date. Both the price and the amount of discount are considered in determining the bid to be selected. However, no consideration is given to the extended payment due dates, for example net 30 or 60 days, even though such bids may be less costly. When interest costs are considered, it may be cost beneficial to forfeit the discount and make payment at the expiration of all authorized time (e.g., 30 or 60 days).

The Treasury Department was requested to provide a cost of money factor that can be used in determining the time value of money in the evaluation of oil contract bids. Unless some overriding impediments are surfaced, bid selections will be based on the lowest costs to the Government, considering the stated standard price, the cash discount terms and the maximum time period allowed in the contract for payment (net). Before this can be implemented, the language clauses in requests for bids will have to be approved by the Defense Acquisition Regulatory Council. It is hopeful that the new criteria for evaluating oil contract bids can be implemented before the end of fiscal year 1979.

D. REDUCTION IN THE FREQUENCY OF PAYMENTS FOR THE RENTAL OF OFFICE MACHINES

A change in the frequency in the payment for the rental of office equipment (e.g., copiers) seems to be cost beneficial and is being considerd. Generally, contractors submit billings monthly for rentals of office machines. It is believed that biannual billing would result in cost savings and a reduction of paperwork under the biannual billing procedure. The first 6 month's bill would be paid on the 15th day of the 4th month, and the last 6 month's bill would be paid on the 15th day of the 10th month.

The Computer and Business Equipment Manufacturers Association has been requested to survey its members to determine which companies would be interested in using the biannual billing procedures. If concluded to be beneficial, the optional billing procedure will be implemented during fiscal year 1979.

E. FORECASTING OF OUTLAYS

As most of you know, cash management starts with the forecasting of disbursements and receipts. The military departments have various improvement actions underway to refine their cash flow forecasting.

Actions underway include:

1. The Navy is developing a 30-day forecasting system based on short-term "payout" of obligations within the operating and RDT&E appropriations; it is also developing a forecasting system based on high value payments in the procurement appropriation. The Navy is also developing a forecasting model to accurately project progress payments for aircraft procurement.

2. The Air Force is developing a more extensive database for use in estimating outlays.

3. The Army has undertaken studies to develop a mathematical model to forecast outlays for obligations.

The composite and multi-level appropriation forecasting will enhance the reliablility of budget and planning estimates, and provide more refined data for use in determining Treasury borrowing requirements, projecting economic trends and deciding Federal Reserve Bank policy. The military departments expect to implement the actions during fiscal year 1979.

That concludes my comments on the experience of the Department of Defense in integrating Federal cash management principles into its operations. I'll entertain any questions you may have. Thank you for your time.

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The attached bibliography was developed by the Civil Service Commission, Bureau of Training, to provide a survey of literature on cash management to Federal agencies.

The entries listed in the cash management bibliography by no means represent an exhaustive list of material on the subject. Rather, the bibliography is intended to serve as a basis for agency research on the subject. As additional materials are identified, the Civil Service Commission will update the bibliography in an effort to maintain a current selection of readings on cash management.

Recommendations for any additions to this bibliography should be forwarded to:

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