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Cash Management Policy and Procedures Need Improvement. FGMSD-78-20; B-159797. March 17, 1978. 2 pp. + 3 appendices (11 pp.).

Report to Secretary, Department of Defense; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

Issue Area: Accounting and Financial Reporting: Sound Cash Management (2805).
Contact: Financial and General Management Studies Div.
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Organization Concerned: Department of the Army; Department of the Air Force; Department of the Navy.
Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.
Authority: 31 U.S.C. 492.

A recent review showed that the Department of Defense's (DOD's) cash-on-hand balances exceeded requirements by about $50 million. If this money had been returned to the Treasury, Government interest costs could have been reduced by about $3.2 million annually. Findings/Conclusions: In spite of promised action by DOD, cash-on-hand balances were still unnecessarily large in relation to operating needs. Excess balances could be reduced in the military banking facilities, finance and accounting offices, foreign currency accounts overseas, and aboard ships. Excess cash has been on deposit with military banking facilities overseas, and the central finance office in Europe had foreign currency accounts which were not needed with the military banking facilities. DOD has not developed criteria for the central finance offices to use in determining cash levels to be maintained at these facilities. Reviews showed that 26 military finance and accounting offices were holding about $15.5 million in excess cash, costing the Government about $1,075,000 annually in unnecessary interest costs. Excess cash balances continue because there is no incentive for Defense organizations to maintain minimum balances. The President has directed his reorganization staff to study cash management policies. Recommendations: The Secretary of Defense should: issue guidelines for determining the level of cash balances that should be maintained by central finance offices overseas, clarify DOD criteria for determining how frequently cash should be replenished at finance and accounting offices, and have the Secretary of the Navy develop detailed guidelines for determining what cash needs should be for deployed ships and ships in port. (Author/HTW)

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REPORT BY THE U.S.

General Accounting Office

Cash Management Policy And Procedures Need Improvement

The Department of Defense could save millions of dollars annually in interest costs by returning excess cash to the Department of the Treasury. Excess cash balances of about $50 million occurred at central finance offices overseas, at military service finance and accounting offices, and aboard ships, resulting in about $3.2 million of unnecessary interest costs annually. These excess balances occurred because guidelines for computing cash requirements were either not clear or not followed.

GAO recommends ways to improve Defense's cash management policy and procedures.

UNITED STATES GENERAL ACCOUNTING OFFICE

FGMSD-78-20

MARCH 17, 1978

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-159797

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

We made this review to determine what improvements have been made in the Department of Defense's cash management policies and procedures since our March 21, 1974, report ("Savings in Interest Costs Realized by Reducing Cash on Hand at Overseas Activities," B-159797). Although some improvements have been made, cash-on-hand balances are still unnecessarily large in relation to operating needs.

As you know, excess cash holdings, to the extent they involve additional borrowings by the Department of the Treasury, generate unnecessary interest costs. Our recent review showed that cash-on-hand balances exceeded requirements by about $50 million. If this money had been returned to the Treasury, Government interest costs could have been reduced by about $3.2 million annually.

These excess cash balances occurred because Defense and military service guidelines for computing cash requirements were either not clear or were not followed. The fundamental reason for continued excess cash balances is that Defense organizations have no incentive to maintain minimum balances.

The President has recognized the savings available through improved cash management and has recently directed his reorganization staff to study cash management policies, practices, and organization.

Appendix I describes the need for developing and/or improving guidelines for central finance offices, finance and accounting offices, and ships to use in determining maximum cash balances to be maintained. We informally discussed our findings with headquarters Defense officials, and where appropriate their comments have been considered in preparing this report.

The scope of our review is in appendix II. The principal officials responsible for administering the activities discussed in this report are listed in appendix III.

This report contains recommendations to you on page 8. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the President's reorganization staff involved in reviewing Federal cash management; the Chairmen, House Committee on Government Operations and Senate Committee on Governmental Affairs, and the House and Senate Committees on Appropriations and Armed Services; the Acting Director, Office of Management and Budget; the Secretary of the Treasury; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

D. L. Scantlebury

D. L. Scantlebury
Director

FINDINGS AND RECOMMENDATIONS TO IMPROVE

DEFENSE'S CASH MANAGEMENT

The Department of Defense has disbursing officers in the United States, overseas, and aboard ships to facilitate payments to the public. The overseas disbursing operation has cash on deposit at military banking facilities operated by commercial concerns at military installations not serviced by Federal Reserve banks. These military banking facilities have cash custody accounts belonging to central finance offices responsible for the area, which enable Defense to provide cash resources to military finance and accounting offices in their vicinity. As of June 30, 1977, the military services were accountable for about $380 million as follows:

	United States	Overseas
	(millions)	
Army	$ 75.9	$172.5
Air Force	7.5	61.1
Navy (except aboard ships)	11.2	12.3
Navy (aboard ships)	39.4	-
	$134.0	$245.9

Using the prevailing Treasury borrowing rate on marketable obligations in September 1977 of 6.5 percent, the daily interest on $380 million would be $67,671.

The central finance offices and finance and accounting offices also maintain balances of foreign currencies. The foreign currencies are used to

--exchange U.S. dollars to accommodate personnel overseas,

--cover foreign currency checks drawn on personal checking accounts,

--meet payroll requirements of local national personnel, and

--make payments for goods and services provided by local firms.

CASH-ON-HAND BALANCES STILL EXCEED NEEDS

Despite our earlier report and Defense's promised actions, cash-on-hand balances were still unnecessarily large in relation to operating needs. Large excess balances could be reduced in the military banking facilities, finance and accounting offices in the United States and overseas, foreign currency accounts overseas, and aboard ships.

All cash balances were established pursuant to section 3620 of the Revised Statutes, as amended (31 U.S.C. 492), which authorizes the Secretary of the Treasury to provide for keeping in other than public depositories, public monies entrusted to Federal disbursing officers. The Treasury requires disbursing officers, in determining their cash requirements, to consider fully the interest costs involved in maintaining cash outside of Treasury accounts; thus minimizing the balances.

In our March 21, 1974, report, we advised the Secretary of Defense that cash-on-hand balances overseas exceeded operating needs by $59 million and that cash-holding authorizations were grossly overstated and not computed in accordance with Treasury, Defense, and military service criteria. We also stated that required inspections and audits to identify unneeded cash balances were not being made. Defense officials concurred with our observations and agreed to take action to minimize cash balances.

Military banking facilities

For several years, millions of dollars in excess cash have been on deposit with the military banking facilities overseas. This cash on deposit is accounted for by the central finance offices. Also, the central finance office in Europe had foreign currency accounts, which were not needed, with the military banking facilities. This occurred because central finance offices had no guidelines to determine the maximum cash balances to be maintained.

The central finance office maintains cash accounts in military banking facilities for Defense in Europe. One banking organization has 67 full-time branch banks and 47 part-time outlets; another banking organization has 2 full-time and 2 part-time branches. These 118 banking offices are to insure that cash is available to military finance and accounting offices, other military organizations, and individuals. The cash for these accounts is accumulated from deposits and purchases from European banks.

In our March 1974 report, we said that the European central finance office's account with the military banking facilities had average daily balances of about $12 million in excess of needs and that action was subsequently taken to reduce the balances by $14.1 million. In 1975 we found that two banking organizations' balances never went below $15.1 million and $748,000. In 1976 the larger banking organization had an authorized average daily cash balance of $33 million, and our analysis of the account showed that $14.1 million was the lowest balance maintained. We believe that these large unused cash balances indicated that excess cash was being held in the banks by the European central finance office and some reductions to cash balances could be made.

Officials agreed that the accounts had excess balances and proposed a reduction in the authorized average daily cash balance in the larger banking organization from $33 to $30 million. The balance held in the other banking organization's authorized average daily cash level was reduced by $380,000 to $620,000. These reductions of $3.4 million should save the Government about $221,000 in annual interest costs.

Defense has not developed criteria for the central finance offices to use in determining cash levels to be maintained at military banking facilities. We could not find any documentation to support the levels of cash for the central finance offices nor could officials tell us the basis for the cash levels established. In our opinion, by developing and applying criteria for authorized cash levels, officials would have a better method to monitor and control the central finance offices' cash levels and may be able to reduce the present cash levels even more.

The central finance office in Europe also had excess German currency on hand in the banking facilities. Each banking organization maintained a Deutsche mark account for the central finance office to provide marks to branch banks and finance and accounting offices. The larger bank maintained a mark account with a constant balance of 32 million marks 1/ and the other bank's mark account always had a balance of 2 million marks.

We questioned Treasury, Army, and bank officials about the need for the European central finance office to maintain the mark accounts since the balances were always the same. Bank officials stated that the accounts were essential to

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1/As of June 30, 1977, the mark exchange rate was 2.4 marks/ $1.00.

enable timely replenishment of marks to finance and accounting offices. Subsequent to our review, however, the Treasury informed Defense and the banks that the accounts would be eliminated by June 30, 1977. The accounts were eliminated on August 31, 1977, at which time the 34 million marks were valued at about $14.7 million. Elimination of this balance should reduce the Government's annual interest costs by about $954,000.

Finance and accounting offices

Our review and recent Army Audit Agency reviews showed that 26 military finance and accounting offices were holding about $15.5 million in excess cash-on-hand, costing the Government about $1,075,000 annually in unnecessary interest costs. There were also indications that finance and accounting offices in Germany were holding excess Deutsche marks. In both instances--dollars and marks--Defense's cash management policies and procedures were not always adhered to, and in some respects, were not clear. While some reductions have been made as a result of our review and audits by internal audit agencies, we believe improved management policies and procedures will enable greater savings through reduced cash balances.

The Department of Defense has finance and accounting offices worldwide to make incidental, day-to-day expenditures and to provide some services to employees overseas, such as exchanging U.S. currency for foreign currency. Defense regulations provided criteria for the military services to use in determining the cash holding authority for disbursing officers. The guidelines are intended to establish the cash holding authority and the frequency of replenishment based on the amount of average daily disbursements. However, the finance and accounting offices did not always follow the guidelines. For example:

--At four locations in the Pacific, balances were unnecessarily large because cash was replenished monthly while the guidelines called for biweekly replenishment. Replenishment in accordance with the guidelines will reduce the cash balances at the four locations by about $7.7 million.

--The Army Audit Agency determined that a finance and accounting office did not adhere to Army and Defense guidelines and erroneously included payments by checks in computing the cash balance to maintain. As a result, the office held $105,000 more in cash than was necessary.

Better criteria needed for determining required cash balance

Each accounting and finance office is required to calculate how much cash it should be authorized to have on hand. A key factor in determining the cash authorization balance is how often cash can be replenished within a given time, but Defense and military service instructions are vague as to how to determine the rate of replenishment. Each disbursement site is required to categorize its access to the source of replenishment as being either close, not reasonably close, or remote. The instructions do not provide criteria to help determine which category a disbursement site falls in. As a result the instructions are subject to varied interpretations.

We noted, for example, that bank officials in Europe stated that cash could be provided to any finance and accounting office in Germany within 2 days. However, when we reviewed 26 accounting and finance offices in Germany which were within 10 miles from replenishment sources, we found the normal cash replenishment times were as follows:

Offices located within 10 miles of replenishment source	Normal replenishment time
6	1 day
6	1 to 2 days
5	3 days
7	4 to 5 days
1	6 to 10 days
1	11 to 15 days

The above table shows that for more than half of the accounting and finance offices the normal replenishment time exceeded the 2 days estimated by bank officials. It would appear therefore that excess cash balances are being maintained at those locations since more frequent cash replenishment would reduce the average cash balance maintained.

Finance and accounting offices Deutsche mark balances

The finance and accounting offices in Germany had authority to maintain in total a balance of 23.6 million Deutsche marks. We found, however, that the balances maintained in 1975 ranged from 29 million marks to 135.6 million marks. We informed officials that because the balances continuously exceeded the authorized level, the amounts being held may have been excessive. Officials agreed and subsequently began to monitor the mark accounts. We reviewed the mark accounts again in 1976 and found that excessive amounts were still being held. We advised Army officials that reductions could be effected by comparing mark balances with needs and replenishing mark balances more frequently. Army officials agreed and stated that changes would be made in the procedures for operating the mark accounts to enable the balances to be minimized.

Aboard ships

We analyzed cash balances on 14 ships in 1976 and 1977 and found that 10 had excess cash during deployments and 13 had excess cash while in port. We identified an aggregate average excess balance 1/ of $1.8 million on the 13 ships. During the deployments, the excesses ranged up to $862,000; and while in port, the excesses were as high as $353,000.

As of June 30, 1977, the Navy had 325 ships with disbursing officers accountable for about $39.4 million. During deployments the cash is used for payrolls, travel and miscellaneous claims, and check cashing. In addition, the disbursing officers receive cash while deployed from sales of postal money orders and ship's store merchandise.

The Navy provides the following general guidelines for disbursing officers on deployed ships to use in determining the cash balances to be maintained:

> "In determining cash requirements, consideration will be given to the following:
>
> 1. prospective cash collections from postal money orders and retail outlets,
>
> 2. availability of cash at ports of call,
>
> 3. practicability of obtaining cash by registered mail.
>
> Pertinent regulations of applicable area, fleet, and type commanders will be consulted for information as to U.S. cash requirements and as to availability of U.S. and foreign funds at port of call."

1/The aggregate average excess was computed on a weighted average by the number of days deployed and in port.

Of the intermediate commands, only 1 of the 3 fleet commands and only 1 of the 10 type commands had any regulations implementing the above guidelines. The one fleet command's regulation was not specific and discouraged ships from relying on local sources for routine replenishment of cash and required ships to take enough cash to last an entire deployment--generally 6 months. Furthermore, information on replenishment points overseas was not available to ship disbursing officers.

The Navy has not published guidelines on how much cash should be kept on board a ship when it is in port.

The lack of specific criteria has resulted in excess cash on board ships. Examples follow:

--An aircraft carrier had an average cash balance of $2.4 million while deployed. During deployment the ship required an average of only $1.5 million and had excess cash of $0.9 million. While in port, the ship had an average balance of $536,000 but needed only $183,000 and retained excess cash of $353,000. The aggregate average excess of this ship was $615,000.

--A support ship during deployment had an average cash balance of $390,000, requirements of $223,000, and a resulting excess of $167,000. While in port, the ship had excesses of $27,000.

We recognize that there are unique problems involved with managing cash on deployed ships, such as accessibility to replenishment sources and constantly changing operating schedules. We believe, however, that more adequate guidelines for determining minimum cash balances needed on board ships--while deployed and in port--could reduce excesses appreciably.

MORE EMPHASIS IS BEING PLACED ON CASH MANAGEMENT IN THE FEDERAL GOVERNMENT

Excess cash balances continue because there is no incentive at present for Defense organizations to maintain minimum balances. Since Treasury bears the interest expense related to public borrowings, Defense (and other Federal agencies) receives no direct benefit from interest reductions.

The President has recognized the potential for savings through improved cash management, and in a November 14, 1977, memorandum to the heads of executive departments and agencies, directed his reorganization staff to study cash management policies, practices, and organizations throughout the Federal Government. One aspect of the study, which will receive special attention, is how effectively the Government provides incentives to make Federal managers more aware of the cash management implications of their decisions.

CONCLUSIONS

Unless effective cash management incentives are devised, excessive cash balances will continue to be maintained by Defense. The study ordered by the President will address needed incentives and, hopefully, a Government-wide incentive program will result.

In the interim Defense can take steps to improve cash management by developing and/or improving guidelines for central finance offices overseas, finance and accounting offices, and ships to use in determining the maximum cash balance to be maintained.

RECOMMENDATIONS

We recommend that the Secretary of Defense

--issue guidelines for determining the level of cash balances that should be maintained by central finance offices overseas,

--clarify Defense criteria for determining how frequently cash should be replenished at finance and accounting offices, and

--have the Secretary of the Navy develop detailed guidelines for determining what cash needs should be for deployed ships and ships in port.

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We have informally discussed our findings with headquarters Defense officials, and where appropriate their comments have been considered in preparing this report.

SCOPE OF REVIEW

We analyzed Department of Defense regulations, interviewed officials, performed tests of cash records, and reviewed the work of the services' internal audit agencies. We made the review at the Headquarters, Departments of Defense, Army, Navy, and Air Force, Washington, D.C.; the Army Finance and Accounting Center, Indianapolis, Indiana; the Navy Finance Center, Cleveland, Ohio; the Air Force Accounting and Finance Center, Denver, Colorado; Headquarters, U.S. Army, Europe, Heidelberg, Germany; Eighth Army, Seoul, Korea; Central Finance and Accounting Office, Heidelberg, Germany; 45th Finance Section, Kaiserslauten, Germany; 18th Finance Section, Frankfurt, Germany; 63d Finance Section, Zweibruecken, Germany; U.S. Air Force, Europe, Ramstein, Germany; Lakenheath Air Force Base, England; U.S. Naval Forces, Europe, London, England; Chase Manhattan Bank, Heidelberg, Germany; American Express Bank, Frankfurt, Germany; Clark Air Force Base and Naval Supply Depot, Subic Bay, Philippines; and several ships in port at the Naval Base, Norfolk, Virginia. To the extent possible, we used the work performed by Defense internal audit agencies.

PRINCIPAL OFFICIALS

RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF DEFENSE		
SECRETARY OF DEFENSE:		
Dr. Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
Dr. James R. Schlesinger	July 1973	Nov. 1975
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):		
Fred P. Wacker	Sept. 1976	Present
Terence E. McClary	June 1973	Aug. 1976
DEPARTMENT OF THE ARMY		
SECRETARY OF THE ARMY:		
Clifford Alexander, Jr.	Feb. 1977	Present
Martin R. Hoffman	Aug. 1975	Feb. 1977
Howard H. Callaway	May 1973	July 1975
ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND FINANCIAL MANAGEMENT) (note a):		
Alan J. Gibbs	Apr. 1977	Present
Jack E. Hobbs (acting)	Apr. 1977	Apr. 1977
Hadlai A. Hull	Mar. 1973	Apr. 1977
COMPTROLLER OF THE ARMY:		
Lt. Gen. Richard West	Oct. 1977	Present
James Leonard (acting)	June 1977	Oct. 1977
Lt. Gen. John A. Kjellstrom	July 1974	June 1977
Lt. Gen. E. M. Flanagan, Jr.	Jan. 1973	July 1974
DEPARTMENT OF THE NAVY		
SECRETARY OF THE NAVY:		
W. Graham Claytor, Jr.	Feb. 1977	Present
J. William Middendorf II	June 1974	Feb. 1977
John W. Warner	May 1972	Apr. 1974

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a/Title changed from Financial Management to Installations, Logistics and Financial Management in June 1977.

	Tenure of office	
	From	To
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT):		
George A. Peapples	Nov. 1977	Present
Vacant	May 1977	Nov. 1977
Gary D. Penisten	Oct. 1974	May 1977
vacant	May 1974	Oct. 1974
Robert D. Nesen	May 1972	Apr. 1974

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:		
John C. Stetson	Apr. 1977	Present
Thomas C. Reed	Jan. 1976	Apr. 1977
James W. Plummer (acting)	Nov. 1975	Jan. 1976
Dr. John L. McLucas	July 1973	Nov. 1975
Dr. Robert C. Seamans, Jr.	July 1969	July 1973
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT):		
Arnold G. Bueter	Aug. 1977	Present
Everett Keech	Sept. 1976	Aug. 1977
Frances Hughes	Mar. 1976	Sept. 1976
Aronld G. Bueter (acting)	Aug. 1975	Mar. 1976
William W. Woodruff	Apr. 1973	July 1975
COMPTROLLER OF THE AIR FORCE:		
Lt. Gen. Charles G. Buckingham	Sept. 1975	Present
Lt. Gen. J. R. DeLuca	Oct. 1973	Sept. 1975

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