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Implementation of the Cash Management Improvement Act

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

The Cash Management Improvement Act (CMIA) of 1990, as amended (Public Law 101-453), focuses on promoting equity in the exchange of funds between the federal government and the states. It addresses the flow of billions of dollars monthly to states to administer numerous federal programs involving payments to individuals or vendors. This legislation responds to previously alleged instances in which either the states drew cash advances well before federal funds were needed to make payment or states used their own funds to satisfy federal program needs and were not reimbursed in a timely manner by the federal agencies.

The act required the Secretary of the Treasury, along with the states, to establish equitable funds transfer procedures, and provided that states would pay interest to the federal government if they draw funds in advance of need and that the federal government would pay interest to states if the federal program agency does not reimburse the states in a timely manner when states use their own funds.

The act provides a framework for calculating interest liabilities of the state and federal government and calls for an annual exchange of the net interest owed by either party. The three key agents in the exchange are the Department of the Treasury's Financial Management Service (FMS), federal program agencies, and the 56 states and territories.[1] This report, which is required by CMIA, assesses these entities' implementation during 1994—the first year of the act. During fiscal year 1994 (which, for the majority of states, included 9 months of the states' first fiscal year under CMIA), the federal government obligated over a reported $150 billion in federal funds to the states for programs covered under the act.

Results in Brief

We found that the three key agents of CMIA had established structures and processes to implement the act and had made substantial progress in achieving the act's purpose of equitable, timely funds transfers. The first year of implementation of CMIA resulted in a cumulative net state interest liability due to the federal government of approximately $34 million—comprised of over $41 million owed by the states offset by

[1]The act defines "state" to mean the 50 states, the District of Columbia, and the 5 territories (American Samoa, Commonwealth of the Northern Mariana Islands, Guam, Puerto Rico, and the Virgin Islands). This report adopts the act's definition.

$4.7 million and $2.5 million owed the states by the federal government for interest and reimbursable costs, respectively.

Although some funds transfers were not interest neutral, taken in context, this liability is very small compared to the over $150 billion obligated in fiscal year 1994 for the programs covered under CMIA. In fact, much of the state interest liability was beyond state agencies' immediate control and was instead attributed to certain states' laws which require that they have the federal funds in the bank before they make any associated disbursements. Four of the 12 states that we visited had a state interest liability totaling $18.5 million which primarily resulted from the states' adherence to such laws.

FMS and the federal program agencies adequately carried out their responsibilities under the act. In addition, the 12 states we visited generally complied with CMIA requirements and indicated that the act had heightened their awareness of cash management. However, several state officials viewed some of the administrative tasks to implement CMIA as burdensome. CMIA envisioned added costs and authorized states to submit claims to FMS for much of the associated administrative efforts. The level of effort in completing tasks, such as preparing Treasury-State Agreements (TSAS) and annual reports, developing clearance patterns, and computing interest liabilities should be less onerous now that the states have established the initial processes for generating this information.

Finally, we found that the Office of Management and Budget's (OMB) published guidance for planning audits under the Single Audit Act of 1984 does not contain suggested audit procedures for testing compliance with CMIA requirements. As a result, we found that 1994 Single Audit Act reports for the states we visited lacked consistency and comprehensiveness in checking for compliance with Treasury regulations.

Background

Prior to CMIA, the timing of federal funds transfers to states was governed by the Intergovernmental Cooperation Act, Public Law 90-577. That law allowed a state to retain for its own purposes any interest earned on federal funds transferred to it "pending its disbursement for program purposes."

The House Committee on Government Operations, when considering the CMIA legislation in 1990, noted that the Intergovernmental Cooperation Act had been "the source of continuing friction between the states and the

Federal Government.” The House Committee stated that under the Intergovernmental Cooperation Act, “the States need not account to the Federal Government for interest earned on Federal funds disbursed to the states prior to payment of program beneficiaries.” Several years earlier, in 1988, when the Senate Committee on Governmental Affairs had looked into this matter, it found that as a result, “some administering departments at the state level were drawing down Federal funds too far in advance of need, costing the Federal Government foregone interest.”

Both committees pointed out, however, that whenever the federal government complained that states profited unduly from early drawdowns, states would recite “numerous instances where they lose interest opportunities because the Federal Government is slow to reimburse them for moneys the states advance to fund Federal programs.” At the request of the Senate Committee, a Joint State/Federal Cash Management Reform Task Force, comprised of financial management representatives from six states and six federal agencies, including OMB and Treasury, was formed in 1983 to seek fair and equitable solutions to the aforementioned problems relating to the transfer of funds between the federal government and the states. Its work contributed to passage of CMIA in October 1990.

The House Committee expected that CMIA would “provide a fair and equitable resolution to those differences.” It would do so, according to the committee, by establishing “equitable cash transfer procedures, procedures whereby neither the Federal nor state governments profit or suffer financially due to such transfers.”

CMIA, as enacted in 1990, requires the federal government to schedule transfers of funds to states “so as to minimize the time elapsing between transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payments by other means by a state,” and expects states to “minimize the time elapsing between transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes.” To accomplish this goal, CMIA directed the Secretary of the Treasury to negotiate agreements with the individual states to specify procedures for carrying out transfers of funds with that state. It authorized the Secretary to issue regulations establishing such procedures for states with which the Secretary has been unable to reach agreement.

The Senate Governmental Affairs Committee explained when considering a 1992 amendment to CMIA that the act is “meant to provide a self-enforcing incentive for both state and Federal agencies to time the transfer of Federal funds as closely as possible to their actual disbursement for program purposes, so that neither... will lose the time value of their funds.” The “self-enforcing incentive” that the Senate Committee refers to is the act’s interest liability provision. States are required to pay interest to the United States on federal funds transferred to the state from the time those funds are deposited to the state’s account until the time the state uses the funds to redeem checks or warrants or make payments by other means for program purposes. If a state advances its own funds for program purposes prior to a transfer of federal funds, the state is entitled to interest from the United States from the time the state’s own funds are paid out to redeem checks or warrants, or make payments by other means, until the federal funds are deposited to the state’s bank account.

CMIA requires each state to calculate any interest liabilities of the state and federal government and calls for an annual exchange of the net interest owed by either party. Other key requirements of the act and/or Treasury[2] rules and regulations are as follows:

- The Department of the Treasury must establish rules and regulations for implementing CMIA.
- States and FMS may enter into Treasury-State Agreements (TSAS) that outline, by program, the funding technique and the clearance pattern[3] states will use to draw down[4] funds from the federal government. If any state and FMS do not enter into such an agreement, FMS will designate the funding technique and the interest calculation method to be used by that state.
- States may claim reimbursement from Treasury annually for allowable direct costs relating to development and maintenance of clearance patterns and the calculation of interest.
- States must prepare and submit to FMS an annual report that summarizes by program the results of the interest calculation from drawdowns and may include any claims for reimbursement of allowable direct costs.

[2]While the Secretary of the Treasury is responsible for managing funds disbursement under CMIA, this responsibility has been designated to FMS.

[3]Funding techniques are procedures to minimize the time between the transfer of funds from the Treasury and the payment of funds for program purposes by the state. A clearance pattern shows the proportion of a total amount disbursed that is debited against a state’s bank account each day after the disbursement.

[4]A drawdown is a process whereby a state requests and receives federal funds.

- The federal program agencies are required to (1) schedule transfers of funds to the states so as to minimize the time elapsing between the disbursement of federal funds from the U.S. Treasury and the issuance and redemption of checks, warrants, or payments by other means by a state and (2) upon Treasury's request, review annual reports submitted by the states for reasonableness and accuracy.

During fiscal year 1994 (which, for the majority of states, included 9 months of the states' first fiscal year under CMIA), the federal government obligated over a reported $150 billion in federal funds to the states for programs covered under the act. (See table 1.) These programs were funded by the Departments of Health and Human Services (HHS), Labor, Education, Agriculture, Transportation and the Social Security Administration. We did not independently verify the amounts in table 1.

Table 1: Federal Program Funding Provided to the States During the First Year of CMIA

Dollars in thousands

Programs included in first year of CMIA [a]	Fiscal year 1994 actual obligations [b,c]	Responsible federal program agency
National School Lunch	$ 4,346,099	Agriculture
Food Program for Women, Infants & Children	3,304,925	Agriculture
Food Stamp Program	1,520,083	Agriculture
Nutrition Assistance for Puerto Rico	1,078,528	Agriculture
Unemployment Insurance	2,489,631	Labor
Job Training Partnership	2,484,985	Labor
Highway Planning & Construction	20,718,690	Transportation
Chapter 1-Local Education Agencies	6,335,067	Education
Special Education	2,661,605	Education
Rehabilitation Services	1,967,630	Education
Family Support Payments to States	12,651,300	HHS
Job Opportunities & Basic Skills Training	872,976	HHS
Child Support Enforcement	1,789,492	HHS
Low-Income Home Energy Assistance	1,437,392	HHS
Foster Care	2,605,500	HHS
Social Services Block Grant	2,807,000	HHS
Medical Assistance	81,211,439	HHS
Prevention & Treatment of Substance Abuse	1,164,789	HHS
Total	**$151,447,131**	

[a]The Pell Grant program was covered under CMIA during the first year. However, the Treasury regulations granted a grace period for colleges and universities which states that, unless otherwise specified in a Treasury-state agreement, the regulations do not apply to a state institution of higher education prior to a state's 1995 fiscal year. Approximately 5 states included the Pell Grant program in their TSA for their 1994 fiscal year.

[b]Obligations represent amounts expected to be distributed by the federal government to the states and territories during the period October 1, 1993 through September 30, 1994.

[c]The Supplemental Security Income program is a reverse flow program whereby the federal government makes payments on behalf of the state. The federal government will incur an interest liability if state funds are in a federal government account prior to the day a federal agency pays out funds for program purposes. A federal interest liability will accrue from the day state funds are credited to the federal government's account to the day the federal agency pays out the state funds for program purposes.

Source: Office of Management and Budget's Budget Information for States, Fiscal Year 1996.

Objectives, Scope, and Methodology

Our objective was to report, as required under the act, on CMIA's implementation. Specifically, we determined whether

- as required under the act, the Department of the Treasury developed rules and regulations for implementing the act;
- the Treasury-State Agreements (TSAS) were negotiated in accordance with CMIA provisions and Treasury rules and regulations;
- the states we visited followed the funding techniques and clearance patterns approved by FMS in requesting and transferring funds;
- for the states we visited, interest was assessed to the federal government and states, in accordance with CMIA and Treasury rules and regulations;
- claims submitted by the states we visited for reimbursement of allowable direct costs incurred in implementing CMIA were prepared in accordance with Treasury regulations;
- the states submitted all required annual reports to FMS; and
- the federal program agencies (1) scheduled transfers of funds to the states so as to minimize the time elapsing between the disbursement of federal funds from the U.S. Treasury and the issuance and redemption of checks, warrants, or payments by other means by a state and (2) upon Treasury's request, reviewed annual reports submitted by the states for reasonableness and accuracy.

To accomplish these objectives, we (1) performed walkthroughs of how funds flow from the federal government to the states and how the states distribute the funds for program purposes, (2) interviewed state officials, (3) tested transactions, (4) interviewed state auditors, and (5) reviewed Single Audit Act reports.

The Single Audit Act of 1984 requires each state or local government that receives $100,000 or more in federal financial assistance in any given year to have an annual[5] comprehensive single audit of its financial operations, including tests to determine whether the entity complied with laws and regulations that may have a material effect on its financial statements or its major programs, as defined in the Single Audit Act. The Office of Management and Budget (OMB) publishes guidance to assist auditors in planning audits under the Single Audit Act of 1984.

We also reviewed Treasury's regulations, implementation plans, and procedures for reviewing TSAS and annual reports. In addition, we sent a questionnaire to all states to obtain their views on CMIA implementation

[5]Entities may arrange for biennial audits under certain conditions specified in the act.

and summarized the results of the 54 completed and returned questionnaires.

To determine if the federal program agencies and the states were properly implementing CMIA, we also documented systems used to process selected transactions of eight major programs (National School Lunch, Unemployment Insurance, Chapter 1-Local Education, Family Support Payments to States, Social Services Block Grant, Medical Assistance, Highway Planning and Construction, and Supplemental Security Income). These programs were selected on the basis of federal funding levels and the amount of interest liabilities incurred during the first year of CMIA implementation. It was not part of our scope to assess the adequacy of the accounting systems states and federal program agencies used to carry out their CMIA requirements.

The period covered by the audit was the states' 1994 fiscal year, which, for almost all of the states, was the period from July 1, 1993 through June 30, 1994. The first required annual reports were due by December 31, 1994, and the first interest exchange between the states and the federal government occurred on or about March 1, 1995.

The 12 states selected for detailed audit work were chosen primarily because they received relatively large amounts of federal funds, incurred comparatively large federal or state interest liabilities, and, in some cases, were denied interest and direct costs reimbursement claims submitted to FMS. We included states that reported interest liabilities to or from the federal government (California, Colorado, Florida, Indiana, Maryland, New York, Ohio, Pennsylvania, Texas, and Tennessee) and states that reported no state or federal interest liabilities (District of Columbia and Georgia). We also visited the Departments of Health and Human Services, Labor, Education, Agriculture, Transportation and the Social Security Administration because they process requests for funds for the programs we selected for audit and review federal interest liabilities relating to these programs.

We conducted our audit between April and September 1995 at 12 states, 6 federal program agencies, and FMS. We performed our work in accordance with generally accepted government auditing standards. While we performed limited testing of the reasonableness of the calculated interest liability and reimbursement of the direct costs for the 12 states visited, our audit scope did not include an assessment of the accuracy and completeness of the $34 million net interest liability (comprised of

$41.6 million of state interest liabilities offset by a $4.7 federal interest liability and $2.5 million in states' claims for direct costs reimbursement), nor did we test the accuracy of program disbursements made by the states.

We provided a draft of this report to Treasury's FMS for review and comment. FMS agreed with our findings and conclusions.

The Three Key Agents of CMIA Have Made Progress in Achieving the Act's Purpose

Our review showed that the Department of the Treasury, federal program agencies, and the states have made substantial progress in achieving the act's purpose of timely transfers of funds. Most state officials acknowledged that CMIA has helped heighten their awareness of cash management, but several expressed concern over what they viewed as added administrative burden.

While the three key agents have made progress in implementing CMIA, three of the states we visited consistently did not comply with certain Treasury rules and regulations. Some of the noncompliance situations resulted in an understatement in the states' reported state interest liability. However, because it was outside the scope of our audit, we did not attempt to project the total understatements resulting from these noncompliances. We communicated these noncompliances to FMS, and it informed us that it will take appropriate actions to address the noncompliances.

Financial Management Service and Federal Program Agencies

As amended, CMIA directed that by July 1, 1993, or the first day of a state's fiscal year beginning in 1993, whichever is later, the Secretary of the Treasury was to make all reasonable efforts to enter into a written agreement with each state that receives a transfer of federal funds. This agreement was to document the procedures and requirements for the transfer of funds between federal executive branch agencies and the states. In addition, the Secretary was to issue rules and regulations within 3 years relating to the implementation of CMIA.

FMS officials have made substantial efforts to enable successful implementation. They

- published final rules and regulations for implementing CMIA;
- contracted for development of clearance patterns that could be used by states that did not develop their own;

- developed and issued an Implementation Guide, Federal and State Review Guides, and a Treasury-State Agreement Form Book;
- negotiated first year TSAS, within the time period specified in the act, with all but two states and second year agreements with all but one state;
- reviewed the documentation for reimbursement of allowable direct costs over $50,000 submitted by the states;
- received first-year annual reports from all the states and submitted them to program agencies for review of federal interest liabilities claimed;
- issued several policy statements intended to clarify regulations;
- submitted to OMB suggested language on CMIA-related audit objectives and procedures for inclusion in the planned revisions to the Compliance Supplement for Single Audit Act reviews; and
- developed plans to revise the CMIA regulations to streamline processes to make them more flexible.

As part of its revision of the CMIA regulations, FMS plans to allow for greater variation in funding techniques and to delete descriptions and examples of the four current funding techniques from the regulations. Thus, according to FMS, states will be able to choose a technique that meets their needs. FMS also plans to eliminate the prohibition on reimbursable funding to provide states with greater flexibility in funding techniques.

In the same regard, we found that the federal program agencies met their responsibilities under the act to transfer funds in a timely manner. This is evidenced by the relatively small (approximately $4.7 million) federal interest liability incurred in the first year of the act's implementation.

States

State officials generally credit CMIA with heightening their awareness of cash management matters. Even though several of them said that they had been practicing cash management techniques prior to CMIA, they still believed that CMIA was instrumental in focusing attention on when federal funds should be requested. Of the 54 states responding to our questionnaire, 41 stated that CMIA raised their level of awareness regarding cash management. Thirty-two said that CMIA is needed to ensure financial equity in the transfer of funds. The 12 states we visited were generally making a good effort to comply with CMIA requirements.

The following sections describe actions states have taken and provide additional details on actions taken by the 12 states we visited and the noncompliance situations we found at 3 of the states.

Treasury-State Agreement: All but 2 of the 56 states and all of the 12 states visited signed a first year TSA with FMS.

Clearance Pattern Methodology: Nine of the states we visited developed their own clearance patterns based on techniques described in the Treasury regulations. Three chose to accept a clearance pattern time provided by FMS based on a study done under contract for the federal government. In an effort to be efficient, a few states are testing clearance patterns on a quarterly basis, even though they are not required by Treasury regulations to recertify their clearance patterns more frequently than every 5 years.

Adherence to Agreed to Drawdown Techniques: For all the programs included in our review, we tested to determine whether states we visited were drawing down federal funds in accordance with the terms contained in their agreements. Generally, we noted that drawdowns complied with agreement terms. However, in one state, the agreed upon drawdown techniques were consistently not followed for six of the seven programs tested. For example, two programs were consistently drawing funds several days prior to the TSA specified schedule. According to program officials, the agreed upon funding techniques negotiated by the state treasurer's office did not reflect the actual timing of when these funds were clearing accounts. Therefore, the program officials drew the funds in what they thought was a more accurate manner.

In addition, the state filed an amended annual report with FMS reducing its net state liability from about $500,000 to $60,000. The state informed FMS that it had followed its agreed upon funding techniques in all its programs and, therefore, was reducing its previously reported interest liability. However, as mentioned above, we found that the state was consistently not following its agreed upon funding techniques.

In another state, our work showed that no attempt was made to draw down in accordance with the funding technique for 5 of the programs tested. According to program officials, they were unaware of the techniques specified in the agreement because they were not consulted before the agreement was approved nor had they seen the agreement after it went into effect. In this case, no federal interest liability was created since funds were being transferred to the states in a timely manner whenever they were requested. However, in the transactions we looked at, this did result in the state consistently using its own money to fund programs until it received federal funds.

Interest Calculation: Ten of the 12 states we visited computed interest liabilities. Both states that did not make such computations told us they had no interest liabilities to compute. However, our review showed that one of these states should have computed an interest liability on certain refunds it received.

Our tests of interest calculations showed some problems. For example, one state claimed a federal interest liability because it did not receive federal funds by the time specified in the TSA. FMS denied a significant portion of this claim because it concluded that the state was not requesting funds in time for the federal government to provide them as called for in the agreement. We attempted to determine the reasonableness of the state's claim, but state officials told us that they no longer had sufficient documentation to support their claim.

Direct Cost: The Treasury regulations authorize states to claim reimbursement for direct costs incurred for developing and maintaining clearance patterns and computing interest liabilities. Reimbursable direct costs were claimed by 11 of the 12 states we visited. FMS denied a significant portion of the direct cost claims for two of these states. FMS denied a portion of the claims because the documentation submitted did not support costs allowable under CMIA. One state has appealed the decision and the other is considering an appeal. In those cases where reimbursement was approved, our review of supporting documentation indicated that the states had reasonable support for their claims.

Annual Reports: All 56 states submitted an annual report to FMS for the first year's activities.

Some States View Certain Procedures as Burdensome

While overall states see benefits from CMIA, such as a heightened awareness of cash management, some expressed concern about what they perceived as an additional burden of the act. In 24 of the 54 responses to our questionnaire and 7 of the 12 states we visited, officials expressed their view that the additional administrative tasks associated with implementing the act are burdensome. In addition, officials at 2 of the states we visited stated that the CMIA regulations were inflexible.

Some of the issues cited by the states included:

- Administrative tasks needed to comply with CMIA, such as preparing TSAS and annual reports, developing clearance patterns, computing interest

liabilities, tracking refunds, and compiling direct costs, are burdensome to their operations.

- Three states said that the Treasury was being inflexible by not allowing them to use the reimbursable funding technique, which is a method of transferring federal funds to a state after the state has paid out its own funds for program purposes. After June 30, 1994, Treasury regulations prohibited reimbursable funding, except where mandated by federal law. One state said that it believed that the act itself does not specifically prohibit reimbursable funding and that some federal assistance programs must use it as a necessity. It said that using another funding technique that requires estimating cash needs in advance and reconciling later to actual expenditures creates an unnecessary administrative burden. It also said that the cash needs for some programs cannot be estimated due to fluctuating activities. As we discussed earlier, FMS is planning to revise the CMIA regulations to allow for the use of reimbursable funding.
- A Treasury policy statement requires that average clearance patterns be calculated out until 99 percent of the funds have cleared through the bank account. Some of the states said that this degree of precision was unnecessary because it requires them to make excessive small dollar amount draws.
- Treasury regulations require states to compute interest on refunds for which the federal share is $10,000 or more. Several of the states said that monitoring all programs covered by CMIA for refunds was burdensome given that most of these refunds relate to one federal program. We determined that over 90 percent of all state interest liabilities from refunds reported by the states in the first year annual reports related to one federal program.
- Some states said that the Treasury regulatons should allow reimbursement for all direct costs related to implementing CMIA and not just those costs related to the three specific categories identified in the regulations.

We did not determine the extent of burden created by the added administrative tasks placed on the states as a result of implementing CMIA. However, it should be noted that the states can submit claims for reimbursement for some of the efforts required. Also, some of the tasks, such as preparing TSAS and annual reports, developing clearance patterns, and computing interest liabilities should be less onerous now that the initial processes for generating this information have been established.

First-Year Exchange of Funds Indicates Act Is Working

Under CMIA, a state is authorized to draw down funds based on approved funding techniques. If the state requests funds early, interest is due the federal government. Conversely, if the federal government fails to transfer funds on time, the state is due interest. Ideally, under the act, the transfer of funds would be interest neutral, with neither the federal government nor the states incurring any interest liability. The first year of implementation of CMIA resulted in a cumulative net state interest liability due to the federal government of approximately $34 million. Taken in context, this liability is relatively small compared to the over $150 billion reported as obligated in fiscal year 1994 for the programs covered by the act. Table 2 summarizes the components of the $34 million net state interest liability.

Table 2: Components of the Net State Interest Liability Resulting From CMIA's First Year of Implementation

Dollars in thousands

State	State interest liability	Federal interest liability	Claims for reimbursement of direct costs	Net state (federal) interest liability
Alaska	$ 7.9	$ (24.5)	$(31.7)	$(48.3)
Alabama	282.3	(10.3)	(72.3)	199.7
Arkansas	0.5	(0.0)	(0.0)	0.5
American Samoa	0.0	(0.0)	(0.0)	0.0
Arizona	345.3	(0.0)	(46.6)	298.7
California	6,409.1	(696.7)	(130.3)	5,582.1
CNMI[a]	0.3	(0.5)	(0.4)	(0.6)
Colorado	111.0	(0.0)	(50.0)	61.0
Connecticut	47.7	(55.5)	(18.7)	(26.5)
District of Columbia	0.0	(0.0)	(20.5)	(20.5)
Delaware	56.5	(56.8)	(45.0)	(45.3)
Florida	3,949.6	(34.7)	(51.0)	3,863.9
Georgia	0.0	(0.0)	(36.3)	(36.3)
Guam	0.0	(0.0)	(0.0)	0.0
Hawaii	134.6	(37.0)	(205.7)	(108.1)
Idaho	0.1	(0.0)	(15.7)	(15.6)
Illinois	1,678.2	(244.3)	(36.7)	1,397.2
Indiana	8,609.3	(0.9)	(83.7)	8,524.7
Iowa	515.4	(0.0)	(31.3)	484.1
Kansas	579.0	(11.5)	(60.2)	507.3
Kentucky	439.9	(133.6)	(183.0)	123.3
Louisiana	161.6	(39.7)	(6.1)	115.8

(continued)

Dollars in thousands

State	State interest liability	Federal interest liability	Claims for reimbursement of direct costs	Net state (federal) interest liability
Maine	63.8	(7.1)	(65.5)	(8.8)
Maryland	249.9	(828.9)	(54.6)	(633.6)
Massachusetts	101.9	(4.8)	(116.5)	(19.4)
Michigan	102.9	(370.4)	(6.4)	(273.9)
Minnesota	52.4	(117.0)	(121.0)	(185.6)
Mississippi	19.5	(11.1)	(58.2)	(49.8)
Missouri	707.8	(24.8)	(24.3)	658.7
Montana	17.6	(6.8)	(17.5)	(6.7)
Nebraska	18.6	(2.7)	(4.1)	11.8
Nevada	67.4	(81.0)	(43.0)	(56.6)
New Hampshire	1.6	(1.1)	(67.8)	(67.3)
New Jersey	222.6	(117.4)	(25.7)	79.5
New Mexico	0.7	(12.3)	(56.1)	(67.7)
New York	1,758.7	(138.6)	(53.9)	1,566.2
North Carolina	1,647.7	(49.6)	(100.3)	1,497.8
North Dakota	0.0	(0.0)	(0.0)	0.0
Ohio	963.8	(0.0)	(0.0)	963.8
Oklahoma	47.6	(13.7)	(0.0)	33.9
Oregon	0.0	(52.5)	(0.0)	(52.5)
Pennsylvania	519.0	(311.4)	(230.5)	(22.9)
Puerto Rico	6.5	(123.1)	(18.5)	(135.1)
Rhode Island	393.2	(39.1)	(0.0)	354.1
South Carolina	900.3	(24.8)	(68.8)	806.7
South Dakota	1.4	(4.0)	(14.3)	(16.9)
Tennessee	332.7	(160.4)	(1.7)	170.6
Texas	8,309.7	(0.0)	(21.9)	8,287.8
Utah	24.3	(181.8)	(76.7)	(234.2)
Vermont	27.8	(84.9)	(8.1)	(65.2)
Virgin Islands	0.0	(0.0)	(0.0)	0.0
Virginia	995.7	(53.2)	(50.0)	892.5
Washington	1.6	(1.0)	(2.7)	(2.1)
West Virginia	525.3	(0.0)	(46.3)	479.0
Wisconsin	272.2	(543.0)	(36.5)	(307.3)
Wyoming	0.0	(0.0)	(0.0)	0.0
Total	**$41,682.5**	**$(4,712.5)**	**$(2,516.1)**	**$34,453.9**

(Table notes on next page)

[a]Commonwealth of the Northern Mariana Islands.

Interest claims are submitted by program. FMS denied 47 claims by 15 states for interest (approximately $6.4 million). Reasons cited included insufficient documentation and repeated failure to follow the funding technique specified in the TSA. As of October 1995, 8 of the 15 states had appealed those denials to FMS. Of the 8 states that filed claims to appeal these denials, all but 2 have been resolved. FMS denied a portion of direct cost reimbursement claims submitted by 10 states because the costs were not eligible for reimbursement under Treasury rules and regulations, or the supporting documentation contained both eligible and ineligible costs which could not be separately identified. Three states submitted claims to appeal the denials; two of these states' appeals were subsequently approved based on additional supporting documentation provided to FMS.

As indicated previously, most of the states visited computed interest liabilities in accordance with TSAs, and the majority of the programs reviewed had interest neutral funding techniques, whereby neither the federal government nor the states incur interest. Much of the state interest liability was beyond state agencies' immediate control and was instead attributed to certain states' laws which require that they have the federal funds in the bank before they make any associated disbursements, as opposed to when the check clears the bank. Four of the 12 states we visited had a state interest liability totaling $18.5 million which primarily resulted from the states' adherence to such laws.

Single Audit Coverage

OMB publishes guidance to assist auditors in planning audits under the Single Audit Act of 1984. The guidance, entitled, Compliance Supplement for Single Audits of States and Local Governments, was last updated in September 1990 and does not address CMIA, which was enacted in October 1990. OMB plans to issue a revised Compliance Supplement during fiscal year 1996 which will address CMIA requirements. We reviewed and generally supported a draft of the proposed revisions to the Compliance Supplement relating to cash management. However, we suggested that the Compliance Supplement also include provisions to determine that clearance patterns were properly established and verified by the appropriate state official.

The fiscal year 1994 single audit reports for the states we visited lacked consistency and comprehensiveness in checking for compliance with CMIA

requirements. Auditors in some of the states we visited said that they obtained knowledge about CMIA by obtaining FMS' guidelines to state governments and attended cash management and audit conferences where CMIA was discussed. The auditors also said that they intended to expand work in their next audits to cover other aspects of CMIA requirements such as clearance pattern establishment and compliance with drawdown techniques contained in the TSA.

FMS officials informed us that they do not routinely receive a copy of single audit reports from each state. Under the single audit concept, audited entities are only required to submit single audit reports to federal agencies that directly provide them funds and the Single Audit Clearinghouse, Governments Division, of the Commerce Department. Since FMS is not a funding agency, entities would not be required to submit reports to FMS. However, FMS may obtain copies of single audit reports from the Federal Audit Clearinghouse. Since some states comply with Single Audit Act requirements by arranging for single audit reports for each state department and agency that receives federal assistance, rather than one single audit for the entire state, FMS would in those cases need to obtain multiple reports for a given state.

FMS officials also informed us that they do not routinely review the reports they do receive for CMIA findings. In our June 1994 report[6] on the single audit process, we pointed out that single audit reports are not user friendly. We recommended that the auditors include a summary of their determinations concerning the entity's financial statements, internal controls, and compliance with laws and regulations. The summary information would be useful because single audit reports generally contain seven or more reports from the auditor. We also recommended that the results of all single audits be made more accessible by having the Federal Audit Clearinghouse compile the results in an automated database. We believe that more useful information on compliance with cash management requirements, particularly when summarized in an accessible database, would provide FMS officials with a better basis for reviewing and acting on CMIA issues.

Conclusions

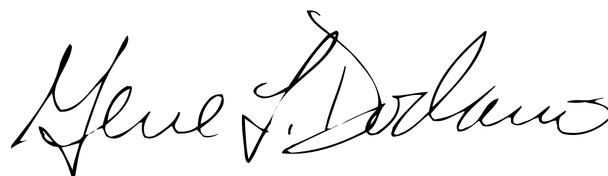
The Cash Management Improvement Act has heightened awareness of cash management at both the state and federal levels. Treasury, the federal agencies, and the states have made substantial progress in implementing the act. By implementing its plans to begin revising CMIA regulations to

[6]Single Audit: Refinements Can Improve Usefulness (GAO/AIMD-94-133 June 21, 1994).

streamline the process and placing greater emphasis on using the results of single audits as a means of overseeing state activities and enforcing CMIA requirements, FMS should be able to further improve the act's effectiveness and help alleviate any concerns about administrative burden.

We are also sending this report to the Secretary of the Treasury; the Commissioner of the Financial Management Service, Department of the Treasury; the Director of the Office of Management and Budget; and the Chairmen and Ranking Minority Members of the House Committee on Government Reform and Oversight, Subcommittee on Government Management, Information and Technology and Senate Committee on Governmental Affairs. We will also send copies to others on request.

This report was prepared under the direction of Gregory M. Holloway, Director, Governmentwide Audits, who may be reached at (202) 512-9510 if you or your staffs have any questions. Other major contributors to this report were Gary T. Engel, Senior Assistant Director; J. Lawrence Malenich, Assistant Director; and Johnny R. Bowen, Senior Audit Manager.



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