

BY THE COMPTROLLER GENERAL

Report To The Congress

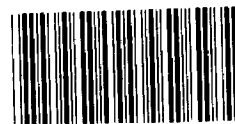
OF THE UNITED STATES

9825

More Effective Federal And State Cash Management Would Increase Interest Income Of Unemployment Trust Fund

The Department of Labor's ineffective monitoring and guidance of State collections and disbursements of unemployment monies causes Federal and State governments to lose millions of dollars in interest income annually on Unemployment Trust Fund deposits. This report shows what happens when States do not use effective cash management techniques in their handling of unemployment tax revenues.

GAO recommends that the Secretary of Labor establish an effective system for regularly monitoring State cash management and State banking arrangements to increase Trust Fund interest earnings.



109100

004967

FGMSD-79-20
APRIL 17, 1979





COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-133182

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

This report deals with cash management aspects of Unemployment Insurance programs which are financed by the Unemployment Trust Fund. As shown in the report, Federal and State governments lose millions of dollars in interest income annually on Fund deposits because of ineffective cash management practices in handling the States' unemployment insurance tax revenues. These practices persist because the Department of Labor has neither effectively monitored State performance to bring problems to the surface nor provided necessary guidance to the States.

We reviewed the cash management of unemployment programs because of the significant increased interest income that would be available through improved practices. Since implementation of the report's recommendations would benefit State governments, we are sending copies of the report to the Governors of the fifty States, Puerto Rico, and the Virgin Islands, and to the Mayor of the District of Columbia.

Copies of this report are also being sent to the Director, Office of Management and Budget; the Secretary of Labor; and the Secretary of the Treasury.

A handwritten signature in cursive script that reads "Bruce B. Stiles".

Comptroller General
of the United States



COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MORE EFFECTIVE FEDERAL AND STATE
CASH MANAGEMENT WOULD INCREASE
INTEREST INCOME OF UNEMPLOYMENT
TRUST FUND

D I G E S T

Federal and State Governments lose at least \$5.1 million, and probably more, in annual interest income because many States are using ineffective cash management techniques in handling unemployment taxes.

According to the Social Security Act of 1935, as amended, unemployment taxes are to be deposited in the Unemployment Trust Fund, ^{invested by the} ~~so the~~ Secretary of the Treasury can invest them, which is an effective cash management technique. Interest from investments enables the Trust Fund to grow, thus increasing the amount that States have available to pay the unemployed. During the last quarter of 1978, the Trust Fund earned interest at an annual rate of 6.25 percent.

However, several million dollars of State-collected unemployment taxes are not on deposit in the Trust Fund earning interest because some States are

- using ineffective practices in depositing and withdrawing money from the Trust Fund,
- maintaining average daily balances in excess of the amounts required by their banks as compensation for their services, and
- dealing with banks having considerably higher compensating balance requirements than other banks.

These conditions persist because the Department of Labor, which is responsible for administering the program, has not effectively monitored the States' cash management performance to surface problems nor has it provided adequate guidance to the States.

Federal and State Governments are adversely affected when Trust Fund earnings are not

maximized. Because interest earnings were at least \$5.1 million less than they could have been, States had less money available to pay the unemployed, and the Federal Government did not have use of part of these earnings to help offset borrowing costs it incurred in providing interest-free loans to some States.

STATES NEED TO IMPROVE
CASH MANAGEMENT PRACTICES

found [While some States apparently apply good cash management techniques to parts of their operations, several forgo substantial Trust Fund interest earnings because they do not keep all available money in the Trust Fund as long as possible. This occurs because the States (1) take too long to deposit unemployment taxes, (2) withdraw money from the Fund earlier than necessary to pay the unemployed on time, and (3) operate under restrictive State statutes or administrative procedures.] For example:

--Eleven of fourteen States reviewed did not earn an estimated \$100,000 in Trust Fund interest during one quarter because they did not deposit 90 percent of all tax payments within 3 days of receipt, as set forth in Labor's criteria. (See p. 8.)

--Eight of twenty-one States with loans withdrew money from the Trust Fund weekly or less frequently instead of daily. If these States had made daily withdrawals in smaller amounts, an additional \$232,000 in annual interest would have been earned by the Trust Fund. (See pp. 9-10.)

Furthermore, some States earn additional interest because they delay withdrawing money from the Trust Fund until after unemployment checks are written. Not all States, however, can delay withdrawals because of restrictive State statutes or administrative procedures which require that funds be on deposit in State bank accounts before checks are written. For example, one State visited did not earn an estimated \$34,000 in Trust Fund interest during the first quarter of 1978 because restrictive State practices required them to withdraw

money from the Trust Fund several days before needed. (See pp. 10-11.)

INCREASED INTEREST AVAILABLE
THROUGH IMPROVED BANKING PRACTICES

Many States lose substantial interest earnings on funds because they maintain average daily balances in excess of amounts required by banks as compensation for their services. In addition, some States may lose interest earnings because they deal with banks requiring considerably higher compensating balances than other banks. GAO found that average daily balances in the bank accounts of 20 States collectively exceeded bank requirements by \$33.3 million during the first quarter of 1978. If this \$33.3 million were deposited in the Trust Fund, it would have earned about \$2 million in annual interest. (See p. 17.)

Because of wide variations in the compensation banks require for their services, many States could benefit by re-examining current banking arrangements. For example, GAO evaluated 32 States and ranked them according to the minimum compensating balances required by their banks for services. Using the compensating balance required of the ninth ranked State, and assuming the other 23 could obtain similar bank prices, GAO estimates these 23 States could collectively transfer over \$25 million from their bank accounts to the Trust Fund. Annual Trust Fund earnings would increase about \$1.5 million. (See pp. 19-20.)

LABOR'S MONITORING AND GUIDANCE OF
STATE CASH MANAGEMENT IS INEFFECTIVE

[Although the Department of Labor ^{is} responsible for monitoring the cash management performance of State employment security agencies, neither Labor headquarters nor its regional offices have established effective monitoring procedures.] As a result, Labor has not been able to identify and suggest improvements to many problems associated

with the timeliness of deposits and withdrawals of unemployment monies and banking arrangements. (See pp. 11-12 and 19-20.)

In addition, [Labor's guidance to the States on the movement of money to and from the Trust Fund and on banking arrangements fosters inefficient and costly cash management practices. Existing guidance is subject to different interpretations which cause some States to

--delay transferring money to the Trust Fund,

--accumulate excessive balances in benefit checking accounts,

--overestimate future cash needs, and

--commingle Trust Fund money in bank accounts with funds from other employment programs.] (See pp. 12-14 and 20-21.)

RECOMMENDATIONS

The Secretary of Labor should take the following interim actions, some of which are already planned or underway by the Unemployment Insurance Service:

--Encourage all States to adopt a delayed drawdown system for daily withdrawals from the Trust Fund, and where necessary, encourage States to remove restrictive legal and administrative impediments to efficient cash management. (See p. 16.)

--Establish an effective system for regular monitoring of State cash management performance and State banking arrangements. (See pp. 16 and 22.)

--Revise and clarify the Department's guidance on selecting and compensating banks for their services. (See p. 22.)

The Secretary should also work with the Secretary of the Treasury to establish a pilot program to determine the feasibility and cost effectiveness of a checks-paid system for making benefit payments. Such a system would match the timing of Trust Fund disbursements with the presentation of unemployment checks for payment and is, in GAO's opinion, the most effective method for assuring maximum earnings on Trust Fund balances. In addition, a checks-paid system eliminates problems associated with (1) States overestimating cash needs and (2) State benefit checking accounts and the need for Labor to monitor them. The system could also possibly eliminate problems associated with State laws requiring premature drawdowns. (See pp. 14-16.)

AGENCY COMMENTS

Labor agreed with the thrust of GAO's findings and all of GAO's recommendations and either plans or has already undertaken steps to improve its guidance and monitoring of the States' cash management practices. (See pp. 23-25.)



C o n t e n t s

| | <u>Page</u> |
|--|-------------|
| DIGEST | i |
| CHAPTER | |
| 1 INTRODUCTION | 1 |
| Trust Fund operations | 2 |
| Federal cash management policies | 3 |
| Scope of review | 5 |
| Another related report | 6 |
| 2 CASH MANAGEMENT OF TRUST FUND MONIES NEEDS IMPROVEMENT | 7 |
| Improved State cash management would increase interest income and reduce Federal borrowing | 8 |
| Better monitoring by Labor of States' cash management performance is needed | 11 |
| Labor should provide better guidance on Trust Fund deposits and withdrawals | 12 |
| An alternative benefit payment system | 14 |
| Conclusions | 15 |
| Recommendations | 16 |
| Agency comments | 16 |
| 3 TRUST FUND EARNINGS COULD BE INCREASED THROUGH IMPROVED BANKING PRACTICES | 17 |
| Balances in commercial banks could be reduced | 17 |
| States should periodically re-examine banking arrangements | 18 |
| Improvement needed in Labor's monitoring of State banking activities | 19 |
| Labor's guidance on banking activities should be improved | 20 |
| Conclusions | 22 |
| Recommendations | 22 |
| Agency comments | 22 |

APPENDIX

| | | |
|-----|---|----|
| I | Agency comments | 23 |
| II | Average time collected funds were on deposit in the clearing account before transfer to the Trust Fund | 26 |
| III | Average time Trust Fund money was withdrawn before actually needed to pay unemployment benefits | 27 |
| IV | States maintaining benefit and/or clearing account balances exceeding the amounts required by their banks | 28 |
| V | Comparative charges for clearing account banking services | 29 |
| VI | Comparative charges for benefit account banking services | 30 |

CHAPTER 1

INTRODUCTION

Unemployment Insurance, established in 1935 under Title III of the Social Security Act (42 U.S.C. 501-504) as a Federal-State partnership, provides temporary income to qualified unemployed workers under several programs. All 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands participate. (Hereafter, these 53 jurisdictions will be referred to as States.) The Regular Benefits and the Extended Benefits programs are the two largest programs accounting for about \$10.1 billion, or 78 percent of total unemployment benefits paid under all programs in 1977. These two programs are financed with State and Federal funds on deposit in the Unemployment Trust Fund (hereafter referred to as the Trust Fund). As of June 30, 1978, States had \$7.6 billion in the Trust Fund.

The Regular Benefits program normally provides an individual with up to 26 weekly benefit payments which are generally funded by employer-paid State unemployment insurance taxes on deposit in the Trust Fund. The Extended Benefits program provides an additional 13 weeks of benefits when State or national unemployment reaches a specified level. The Extended Benefits program was established by the Federal-State Extended Unemployment Compensation Act of 1970 (Public Law 91-373, Title II; 26 U.S.C. 3304) and is funded equally by employer-paid State and Federal unemployment insurance taxes.

In addition to these two programs, several other Federal programs provide unemployment assistance to specific groups of workers, such as Federal civilian employees, former military personnel, and workers whose unemployment is the result of adverse effects of imports or natural disasters. Collectively, these Federal programs accounted for about 22 percent of the total unemployment benefits paid in 1977 and are funded by the Treasury's general funds rather than through the Trust Fund.

Since the Unemployment Insurance Program is a Federal-State partnership, both have responsibilities under the program. The Department of Labor provides general program guidance as well as Federal grants for State operating costs. More specifically, Labor

--annually reviews each State's unemployment insurance law for conformity with Federal statutes,

--monitors the States' administration of the program, including deposits into and withdrawals from the Trust Fund, and

--establishes criteria for determining amounts of Federal money necessary for proper and efficient administration of State unemployment insurance laws.

Each State is responsible for (1) operating its unemployment insurance program in accordance with Department of Labor guidelines, (2) collecting State unemployment taxes, (3) determining applicants' eligibility for benefits and the amount of the unemployment benefits, and (4) issuing unemployment checks.

TRUST FUND OPERATIONS

The Social Security Act of 1935 designated the Secretary of the Treasury as the trustee of the Unemployment Trust Fund with sole investment authority. Although the Treasury invests all Trust Fund money in its entirety, it maintains separate accounts indicating balances available to each State and to each of the various Federal unemployment accounts. Collectively, these Federal and State accounts comprise the Unemployment Trust Fund. The Social Security Act specifies that the investments may be made only in interest-bearing obligations of the United States, or in obligations guaranteed as to both principal and interest by the United States. Interest earnings on investments are credited quarterly to the various Trust Fund accounts based on their average daily balances. During the last quarter of 1978, the Trust Fund earned interest at an annual rate of 6.25 percent.

States collect unemployment insurance taxes from all employers subject to a State unemployment insurance law. A few States also collect taxes from employees. The amount of tax paid is based on wages of employees and the tax rates vary by State. Tax collections are deposited into demand deposit accounts (referred to as clearing accounts) at commercial banks. The money is then transferred by wire to the Secretary of the Treasury for credit to the States' accounts in the Trust Fund. Since States are required to make these transfers immediately upon receipt, they are precluded from investing the money themselves. Therefore, delays in transferring the money result in lost interest earnings.

In addition to State taxes, employers also pay Federal unemployment taxes which are used to (1) pay all administrative costs of the program, (2) pay half of the Extended Benefits, and (3) maintain a loan fund from which States may borrow to

pay unemployment benefits if their respective Trust Fund accounts become insolvent. The Federal tax rate is currently 3.4 percent on the first \$6,000 of each individual's wages paid by employers subject to the Federal Unemployment Tax Act (26 U.S.C. 3301). The law allows a credit of 2.7 percent against the 3.4 percent Federal tax which, effectively, results in a Federal tax rate of 0.7 percent to employers who pay State unemployment insurance taxes under laws approved by the Secretary of Labor. Federal taxes are credited to various Federal unemployment accounts in the Trust Fund.

As States need money to pay the unemployed, they request the Treasury to transfer money by wire from their Trust Fund accounts to their benefit checking accounts maintained in commercial banks. The States then write unemployment checks against these bank accounts. Since States are required to use all money withdrawn from the Trust Fund solely for the payment of unemployment compensation, they are precluded from investing such money. Therefore, transfers should be timed to ensure that the money remains in the Trust Fund as long as possible to earn maximum interest.

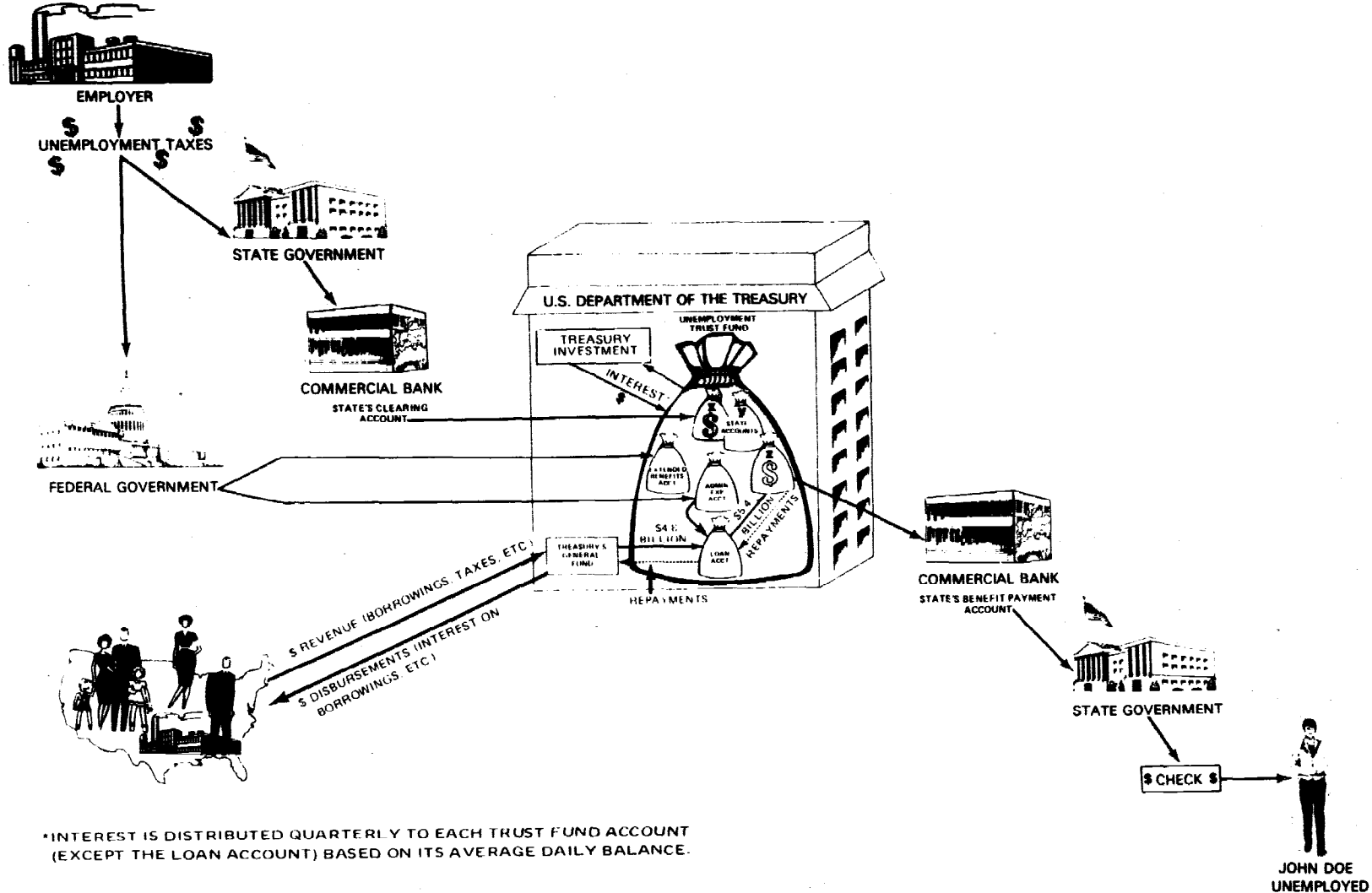
The Social Security Act established an account within the Trust Fund to provide non-interest bearing Federal loans to States when balances in their Trust Fund accounts are insufficient to make benefit payments. As stated previously, the loan account is maintained through Federal unemployment insurance tax revenues. Since July 1975, however, these Federal tax revenues have been insufficient to meet States' increasing needs for loans. As a result, the Treasury has had to borrow from its general fund to replenish the Trust Fund loan account. As of June 30, 1978, 21 States had \$5.4 billion in outstanding interest-free loans of which \$4.8 billion was borrowed from the Treasury's general fund. Interest at 9.0 percent on these loans would be about \$432 million annually.

If Labor approves a loan request, funds are transferred monthly from the loan account to the individual State Trust Fund account. The State must repay the loan within 2 years or its employers will lose a portion of their 2.7 percent Federal unemployment tax credit each year until the loan is repaid. Under the Emergency Unemployment Compensation Act of 1977, however, the Congress has extended the beginning of the repayment period to January 1, 1980. (The operation of the Trust Fund is illustrated on the following page.)

FEDERAL CASH MANAGEMENT POLICIES

The Federal Government has given increasing attention to cash management practices in recent years because it

UNEMPLOYMENT TRUST FUND OPERATIONS



*INTEREST IS DISTRIBUTED QUARTERLY TO EACH TRUST FUND ACCOUNT (EXCEPT THE LOAN ACCOUNT) BASED ON ITS AVERAGE DAILY BALANCE.

annually incurs a substantial amount of interest costs on borrowed money. In fiscal 1977, for example, the Government paid \$38 billion in interest on money it borrowed.

The Treasury provides guidance to Federal agencies to establish cash management policies and practices. Specifically, the Treasury requires that agencies conduct their financial activities in a manner which, among other things, maximizes the amount of cash available for the Treasury's investment and avoids unnecessary borrowing.

The President, recognizing the importance of effective cash management, directed his reorganization staff in November 1977 to find out how modern cash management techniques could help the Federal Government. Since that time, his staff has identified many opportunities to improve Federal cash management and has recommended numerous changes, including expanded use of letters of credit and greater use of electronic fund transfers to speed collections and disbursements.

Sound cash management of the Trust Fund operations can not only benefit the Federal Government through reduced borrowing costs but will also increase interest earnings on State monies, ultimately to the benefit of State employers through reduced State unemployment insurance taxes.

SCOPE OF REVIEW

We reviewed and evaluated Department of Labor cash management policies and State practices to determine whether improvements were needed to increase the earnings of the Unemployment Trust Fund. Individual States have not been identified except in the appendixes.

We visited employment security agencies in five States-- Illinois, Indiana, Kentucky, Missouri, and Ohio. These States were selected on the basis of their geographic location and not because they were considered by us to be better or worse than those we did not visit. We also analyzed bank statements and account analyses, to the extent such analyses were available and complete, for clearing and benefit accounts of other States.

We interviewed headquarters Labor, Treasury, and Federal Reserve System officials and reviewed legislation, regulations, and practices related to the cash management of the Trust Fund. We also interviewed Labor officials in three regional offices and reviewed pertinent cash management policies and practices.

ANOTHER RELATED REPORT

Our recently issued report, "Unemployment Insurance-- Need to Reduce Unequal Treatment of Claimants and Improve Benefit Payment Controls and Tax Collections," (HRD-78-1, April 5, 1978) shows the impact of differences in unemployment insurance program administration among States. The report includes a chapter on differences in administration of tax collection procedures. In many cases those differences lessen the amount of cash available to the program. The report noted a need for some States to improve or establish effective programs for identifying and collecting delinquent taxes. Highlighted were instances in which employers did not file tax returns, or filed a return but did not include payment, and the State delayed initiating collection procedures for several days or months.

Our current report concentrates on the management of cash once it is available to the States.

CHAPTER 2

CASH MANAGEMENT OF TRUST FUND MONIES

NEEDS IMPROVEMENT

Although the total amount is unknown, Federal and State Governments annually lose at least \$5.1 million in Trust Fund interest income because the Department of Labor has not provided adequate guidance and monitoring of State cash management practices for handling unemployment taxes. As a result, many States currently follow cash management procedures that not only reduce the amount of funds available to pay unemployment benefits but can also increase the Treasury's debt service costs of providing interest-free loans to the States.

The Treasury invests State accounts in their entirety and States normally are credited with interest on their entire balance unless they have an outstanding loan. States with outstanding loans are credited with interest only on that part of their balance that exceeds their loan balance. Other interest earned on such accounts is retained by the Treasury and helps offset borrowing costs associated with providing the loans. Because the States are continuously depositing employers' tax collections into the Trust Fund, individual State accounts will normally have a positive balance even though a State may have obtained a loan to finance unemployment payments.

In addition to the adverse effect on the Treasury, the cash management practices of some State employment security agencies not only reduce the amount of funds available for paying benefits but also could ultimately penalize employers through higher unemployment tax rates. Since a State's Trust Fund balance is one factor considered in computing tax rates, excessive cash balances maintained outside of the Trust Fund may contribute to higher State unemployment tax rates.

This chapter discusses examples of how some States could collectively increase Trust Fund interest earnings by about \$1.6 million annually by improving their handling of employer tax contributions and procedures for withdrawing Trust Fund money. Chapter 3 discusses how lower bank balances and more economical banking arrangements by some States could potentially increase annual Trust Fund earnings by \$3.5 million. Considering the magnitude of the cash management problems identified in our review, States that were not reviewed probably have similar problems. Accordingly, we believe that improved cash management practices by all States would increase Trust Fund earnings significantly more than the \$5.1 million discussed in this report.

IMPROVED STATE CASH MANAGEMENT
WOULD INCREASE INTEREST INCOME
AND REDUCE FEDERAL BORROWING

While some States apparently apply good cash management practices to parts of their operations, many States could increase interest income and help reduce Federal borrowing by improving their method of

- processing employer tax contributions,
- transferring collections to the Trust Fund, and
- withdrawing Trust Fund money.

States should expedite the
processing of tax collections

All States require employers to pay their unemployment insurance taxes on a quarterly basis. While some States process these payments into the Trust Fund without delay, others do not and are therefore forgoing substantial Trust Fund earnings. Backlogs develop because the collection process often involves manual operations, from opening and batching the reports through posting of the contributions to appropriate employer accounts.

The Labor Department established a target of 3 days for all States to process and deposit at least 90 percent of all tax payments into their clearing accounts in commercial banks. However, according to a recent performance appraisal report, only 17 States met this target. To determine the potential cost of the processing delays, we reviewed the fourth quarter 1977 deposits for 14 States and found that 11 collectively lost over \$100,000 in potential interest earnings by not meeting Labor's 3-day target. Over half of this amount could have been used to offset some of the Treasury's borrowing costs because six of these States had outstanding loans.

Some States have attempted to reduce quarterly backlogs by various means, including assigning available employees and part-time help to assist in opening and processing the returns. A few States use lock-box deposit systems in an effort to avoid or reduce processing delays. Under such a system, employers send their tax payments directly to a post office box, and the commercial bank daily collects and deposits this tax money into the clearing account. The State subsequently reconciles the lock-box deposits with corresponding tax reports.

While efforts should be made to expedite the deposit of all tax revenues, we believe that some States can further increase Trust Fund earnings by assuring that large tax remittances are given priority handling. Through simple and inexpensive procedures, such as providing coded envelopes for employer remittances, States could identify large checks for immediate deposit. This would increase interest earnings because a higher percentage of collected amounts could be invested earlier. Two States visited simply processed checks in order of receipt regardless of the amount remitted.

Some States should transfer funds sooner

Delays by States in transferring tax revenues from clearing accounts to the Trust Fund reduce the amount of interest income the States earn. The Labor Department requires that account balances should be transferred as collected, ¹/ _{but no later than 2 business days after deposit. Two business days is generally considered an adequate interval for checks to clear through the banks of origin and also to provide reasonable compensation to the banks which service the accounts. Using data from January through March 1978 account analyses provided by their banks, we estimate that at least 5 States are collectively losing over \$200,000 in annual interest by not promptly transferring tax revenues to the Trust Fund. (App. II shows the timeliness of transferring collected monies to the Trust Fund for States included in our review.)}

One State we visited delayed the transfer of tax collections from 3 to 6 days. This State initially deposits tax collections into its general fund where the taxes are subject to investment, and such investment is precluded by Federal law. The State later deposits the funds into a clearing account for transfer to the Trust Fund. Although Labor was unaware of this State's procedures, it had advised other States with similar practices that such arrangements did not conform with Federal law and should be stopped.

States should improve their Trust Fund withdrawal procedures including removing restrictive statutes

Through improved withdrawal procedures and/or removal of restrictive statutes, many States could reduce their benefit account balances and thus retain more money in the interest-bearing Trust Fund for a longer period of time. One way for States to minimize excess cash balances is to make

¹/Deposited checks which have cleared through the banking system and are available for withdrawal from the clearing account.

more frequent drawdowns in smaller amounts. Although permitted by the Treasury, only 10 States made daily drawdowns during June 1978, while 43 States withdrew less frequently, including 2 that withdrew funds only once during the entire month. Daily withdrawals also allow the States to vary the amount requested according to their daily disbursement patterns. Some States routinely withdraw their money in equal portions, regardless of the day-to-day fluctuation in benefit payments. It should be noted, however, that changes in withdrawal procedures should be considered in conjunction with a State's banking arrangements, which are discussed in chapter 3.

While timely drawdowns would directly benefit most States by increasing their daily Trust Fund balances and investment earnings, the Treasury also benefits in some cases through lower borrowing costs. Of the 21 States with loans, 8 routinely withdrew Trust Fund money only once per week or even less frequently. Based on average withdrawals made during June 1978, we estimate that these eight States could generate additional annual earnings in excess of \$232,000 by simply withdrawing Trust Funds on a daily basis, and that amount could be applied against the Treasury's borrowing costs.

Another way to minimize benefit account balances is for States to obtain Trust Fund money on a delayed drawdown 1/ basis rather than withdrawing the money before issuing benefit checks. Delayed drawdown requires close monitoring of daily bank balances and outstanding check amounts but can greatly reduce the amount of money in non-interest-earning benefit accounts. In our opinion, this potential reduction is evidenced by two States that used delayed drawdown procedures and were among those with the fewest days supply of cash in their benefit accounts during the quarter ending March 31, 1978. For example, one of these States averaged less than a 5-calendar-day supply of money in its bank account and the other averaged less than a 3-day supply. In contrast, another State visited averaged a 13-day supply of money in its bank account because it overestimated needs and withdrew money before writing unemployment checks.

Some States, however, are unable to significantly improve their fund management operations as discussed above

1/Delaying the withdrawal until after the checks are written and mailed.

because of restrictive State statutes or administrative procedures. In April 1975, we reported ^{1/} that at least 20 States had laws or procedures requiring that funds be deposited in State accounts before checks could be written. At that time, we recommended that States be encouraged to remove legal impediments to effective cash management, but little has been done to correct it and the problem remains. In fact, Labor did not know how many States had restrictive statutes at the time of our current review. After discussing this problem with Labor officials, they said they would survey the States to determine whether legal or procedural restrictions existed and whether they could be overcome.

Two of the five States visited during this review apparently have restrictive laws or administrative procedures which preclude use of delayed drawdown procedures. Account balances in these two States indicate the effect of such statutes on unemployment insurance cash management. One State's average daily balance equaled about 13 days of disbursements, i.e., Trust Fund money is withdrawn almost 13 days before related benefit checks are cashed and paid by the bank. During the first 3 months of 1978, we estimate this State lost about \$34,000 in Trust Fund interest, in part because of the statute. (See app. III for a comparative analysis of other States' performance.)

BETTER MONITORING BY LABOR
OF STATES' CASH MANAGEMENT
PERFORMANCE IS NEEDED

Labor is responsible for monitoring the cash management performance of State employment security agencies. Specifically, this responsibility includes assessing the States' efficiency in handling program funds and assuring that the States' procedures are in overall compliance with Federal fund management laws and regulations. We found, however, that neither Labor headquarters nor its regional offices have established routine procedures for effectively monitoring the States' cash management performance. Although Labor officials make periodic field visits to the States, cash management performance is generally not reviewed or is given only a cursory evaluation. This is partly attributable to Labor's priorities for monitoring other areas but may also result from a general lack of training and understanding of sound cash management

^{1/}"Opportunities for Savings In Interest Cost Through Improved Letter-of-Credit Methods In Federal Grant Programs," FGMSD-75-17, Apr. 29, 1975.

practices by responsible Labor officials, especially at the regional office level.

We believe that Labor should improve its monitoring of State agencies to identify weaknesses and suggest possible improvements in cash management practices. Labor already has a useful monitoring tool in the required monthly bank account analyses ^{1/} but makes only a limited review of, and in many cases does not even receive, the account analyses. In fact, less than half of the States routinely submit these reports for both accounts, and then, some are often inaccurate or incomplete.

Labor should insist that all States submit account analyses since they would aid in monitoring several elements of State cash management performance, including the timeliness of Trust Fund deposits and withdrawals. We used the account analyses data to develop a set of calculations for this purpose and discussed them with Labor officials. They are considering the use of these calculations in developing an improved cash management monitoring system.

LABOR SHOULD PROVIDE BETTER
GUIDANCE ON TRUST FUND DEPOSITS
AND WITHDRAWALS

Coupled with the need for improved monitoring, Labor also should provide better guidance on cash management to State employment security agencies. Existing guidance not only fosters inefficient and costly cash management practices, but also is an impediment to Labor's monitoring of the States' cash management performance.

Specifically, Labor needs to revise and clarify its guidance on

--transferring tax collections to the Trust Fund and

--withdrawing money from the Trust Fund to pay benefits.

^{1/}An account analysis is a monthly statistical recapitulation of the average amount on deposit in a checking account and a summary of the actual amount of various types of account activities during that month. The activity transactions are priced out and compared to an arbitrarily ascribed earnings credit for deposit balances; this determines whether the bank, by its own analysis formula, has been under- or overcompensated in terms of the deposit balances maintained and the services provided.

Guidance for transferring tax collections needs clarification

The Social Security Act (42 U.S.C. 503(a)(4)) and the Federal Unemployment Tax Act (26 U.S.C. 3304(a)(3)) require that participating States' laws provide that unemployment taxes collected by the States be immediately turned over to the Secretary of the Treasury for credit to the Trust Fund. In our opinion, Labor's implementing guidance is subject to different interpretations. The guidance requires that funds should be transferred "as collected, but no later than the second business day following the day of deposit."

From January through March 1978, some States held onto these tax collections too long before forwarding them to the Secretary of the Treasury. For example, 8 of 25 States evaluated were transferring funds immediately, while 5 States normally left collected funds on deposit 3 or more calendar days before transferring them to the Trust Fund. This latter practice tends to overcompensate banks and reduce the States' earnings, since the funds could be invested earlier. (See app. II for a ranking of the States' transfer of collected funds to the Trust Fund.)

We believe Labor's guidance should be revised to delete the reference to transferring funds "as collected" since such a practice does not compensate banks for their services. The guidance should simply require the States to transfer clearing account funds within 2 business days after deposit. Labor should also emphasize the importance of promptly transferring funds so that Trust Fund earnings are maximized.

Guidance for making Trust Fund withdrawals needs revision

Guidance governing withdrawals from the Trust Fund is set forth in parts IV and V of the Employment Security Manual, and in various agency correspondence. States have interpreted the guidance in various ways, many of which have resulted in excessive balances in their benefit accounts. For example, the guidance directs that States may withdraw not more than a one-week supply of funds to pay unemployment benefits. Part V of the Manual further instructs that larger States should maintain less than a one-week supply. However, there is no definition of larger nor of how much less than a one-week supply is acceptable.

Labor's guidance is also ambiguous regarding the frequency of Trust Fund withdrawals. About half of the States have apparently inferred from Labor's guidance that weekly

drawdowns are appropriate. We believe, however, that daily withdrawals would enable the States to minimize their benefit account balances since they could alter the amount of withdrawals to correspond with their daily disbursement patterns.

Labor also needs to provide better guidance regarding the forecasting of Trust Fund withdrawals. Without specific instructions, some State agencies are projecting their draw-down requirements on the basis of checkbook balances, without regard to their actual benefit account balances in the banks. Checkbook balances will normally be much lower than the actual account balances, since they reflect outstanding checks which have been issued but not yet presented to the bank for payment. In our opinion, those States which project their cash needs according to checkbook balances will consequently maintain bank account balances considerably in excess of their daily needs.

For example, one State maintained an average daily bank balance of \$11.6 million during the first quarter of 1978, while the books of the State agency showed a deficit balance. State agency officials were unaware of their sizable bank balance, because they used checkbook balances as the basis for withdrawals from the Trust Fund and did not review bank statements. After discussing the matter with agency officials, they changed their process and now withdraw funds based on the amount of checks written previously. This new system permitted the State to reduce its bank balance by \$10.3 million to an average daily balance of only \$1.3 million during June 1978. These changes will increase the State's Trust Fund earnings by \$618,000 a year.

AN ALTERNATIVE BENEFIT PAYMENT SYSTEM

We believe the most effective method for assuring maximum Trust Fund interest income is a checks-paid system. Such a system would keep money in the Trust Fund as long as possible by timing Trust Fund withdrawals to match the presentation of unemployment checks at a Federal Reserve Bank for payment. The present system allows States to withdraw Trust Funds for redeposit into non-interest-bearing commercial bank accounts several days before benefit checks are written.

A checks-paid system would assure that the maximum amount of unemployment monies is in the Trust Fund and thus invested at all times. Such a system would eliminate (1) States over-estimating future cash needs and (2) State benefit checking accounts and, consequently, Labor's need to monitor

these accounts. In addition, the system could possibly eliminate problems associated with State laws requiring premature drawdowns.

Although a checks-paid system could operate in a variety of ways, one possible way is for States to issue unemployment benefit checks against their Trust Fund account, as follows. Each day, the Federal Reserve Bank totals and sorts each State's checks received for payment and obtains payment by charging the Treasury's general fund, also maintained at the Federal Reserve. The Treasury simultaneously reimburses the general fund from State accounts in the Trust Fund. The Federal Reserve Bank returns checks directly to the appropriate State fiscal officers and is reimbursed for its services from the Trust Fund's administration account.

Such a checks-paid system requires the Treasury to authorize the Federal Reserve System to pay the State's unemployment checks and would also require that the American Bankers Association assign "transit routing numbers" used to identify each State's benefit checks. Transit routing numbers are part of the magnetically ink-encoded characters at the bottom of all checks and are used by the Federal Reserve System for sorting and returning paid checks to banks or other financial organizations.

CONCLUSIONS

An overall lack of adequate monitoring and guidance by the Department of Labor has generally resulted in a failure to identify and correct ineffective cash management techniques by many States. Although all States were not reviewed, cash management practices in States not evaluated are probably similar to those reviewed. In the absence of effective Labor monitoring, we conclude that State agencies are collectively losing several million dollars in potential Trust Fund investment income every year. A substantial amount of this income could be applied against the Treasury's cost of providing \$4.8 billion in interest-free loans to 21 States.

Although Labor has at various times provided the States with guidance for managing Trust Fund cash flow, much of it is inadequate and needs to be revised. As it now stands, the guidance fosters inefficiency because it is subject to different interpretations and practices, many of which are costly either to the States or to the Treasury.

RECOMMENDATIONS

We recommend that the Secretary of Labor:

- Establish an effective system for regular monitoring of State cash management performance, based on information reported by the banks on monthly account analyses.
- Encourage all States to adopt a delayed drawdown system for making daily Trust Fund withdrawals and, where necessary, encourage State governments to remove legal and administrative impediments to efficient cash management.
- Establish, in coordination with the Secretary of the Treasury, a pilot program in one or more States to determine the feasibility and cost-effectiveness of disbursing Trust Fund money on a checks-paid basis, using the Federal Reserve Banking System to process State unemployment checks.

AGENCY COMMENTS

In a September 26, 1978, letter (see app. I) and in subsequent informal discussions on this report, Labor agreed with our findings and recommendations and has initiated or planned actions to correct many of the problems discussed. Specifically, Labor is (1) developing an automated system for monitoring reports submitted by the States, (2) rewriting its guidance on State cash management practices, including Trust Fund withdrawals, (3) taking action to identify States with laws or procedures which restrict effective cash management, and (4) willing to participate in a study on an alternative benefit payment system.

CHAPTER 3

TRUST FUND EARNINGS COULD

BE INCREASED THROUGH IMPROVED

BANKING PRACTICES

Many State employment security agencies also could increase Trust Fund earnings by obtaining more economical banking arrangements and reducing account balances to the minimum levels required by banks. Although States currently do not pay bank service charges directly, their banks normally require them to keep minimum balances on deposit in return for servicing the clearing and benefit accounts. These minimums, commonly referred to as compensating balances, are determined on the basis of account activity, the itemized charges, and the earnings credit banks allow on deposits.

To optimize Trust Fund earnings, States should place their accounts in the most economical bank (i.e., the bank requiring the lowest minimum balance) and should not maintain balances in excess of this amount. However, many States are in effect overcompensating their banks by maintaining balances considerably higher than required minimums. In addition, many States deal with banks that require considerably higher compensating balances than banks in other States or in some cases within the State. Both factors cost States substantial interest earnings on funds that would otherwise be invested by the Trust Fund.

BALANCES IN COMMERCIAL BANKS COULD BE REDUCED

In 20 States, the collective average daily balances in benefit and/or clearing accounts exceeded banks' required balances by \$33.3 million during the first quarter of 1978. Individual States maintained excess balances ranging between \$9,185 and \$4.2 million. (See app. IV for a listing of States with excess balances in their bank accounts.)

Had those States deposited the \$33.3 million in the Trust Fund, potential annual interest earnings of about \$2 million could have been realized. Again, the existence of such sizable balances in State bank accounts has an adverse effect on the Treasury's borrowing costs. For example, seven States with Treasury loans had excessive bank account balances representing an annual loss of almost \$1.2 million in interest earnings, all of which could be applied against the Treasury's borrowing costs.

STATES SHOULD PERIODICALLY
RE-EXAMINE BANKING ARRANGEMENTS

While some State employment security agencies are obtaining reasonably priced banking services, we believe that many could benefit from re-examining their current banking arrangements for both their clearing accounts and benefit accounts. Although many factors must be considered in selecting banks, Labor should encourage the States to compare the prices and services of their present banks with those available in other area banks.

We obtained January through March 1978 account analyses from several States and calculated the average balances required as compensation for each check deposited into clearing accounts and each check paid through benefit accounts.

Clearing account charges vary

There were wide variations in the relative charges of the banks. Some banks service the clearing accounts for less than \$10 in compensating balances per month, per deposit item. However, many other banks required considerably greater compensation for providing essentially the same services. For example, compensating balances required per deposit item ranged from \$3.09 in one State to \$41.94 in another. The median compensating balance required for the 28 States evaluated was \$11.65.

At least two States have clearing accounts in more than one bank, although the respective costs are significantly different. In one of these States, the minimum balance requirement in one bank was \$39 per item, while the other required a \$45 balance for performing the same services. The second State used four banks, and the minimum compensating balances ranged between \$7 and \$14 per item. Clearly these two States should, in light of these substantial cost differences, reconsider their rationale for multiple accounts. (See app. V for a listing of clearing account charges paid by States studied.)

Benefit account charges also vary

There were also wide variations in the relative charges of the States' banks for servicing benefit accounts. For example, compensating balances required per month per check paid ranged from \$3.54 in one State to \$33.41 in another. The median compensating balance required for the 32 States evaluated was \$16.34. (See app. VI for a complete listing of benefit account charges in the States studied.)

The State previously referred to with clearing accounts in two banks also maintains a benefit account in each, and again the costs of the two banks differ substantially. While one bank requires a compensating balance of about \$23 per check paid, the other handles a similar volume of transactions for a balance of less than \$13 per item. Assuming the State could consolidate or place both accounts in the less costly bank, it could transfer about \$5 million to the Trust Fund and earn an additional \$302,000 annually. All of this interest income could be used to offset the Treasury's cost of providing loans to this State.

IMPROVEMENT NEEDED IN LABOR'S
MONITORING OF STATE BANKING ACTIVITIES

Labor's role as monitor of unemployment insurance program cash management also requires periodic review of the States' banking activities to assess the relative economy of banking services and to assure State compliance with Federal fund management laws and regulations. As stated in chapter 2, however, Labor has not established routine procedures for effective monitoring at either the headquarters or regional office levels.

The monthly account analysis could be used to compare the relative costs of banking services, but, as previously mentioned, less than half of the States routinely submit these required reports to Labor. To illustrate the potential benefits of such a comparison, we ranked 32 States in quartiles according to the minimum compensating balances required by their banks for servicing the benefit accounts. Using the \$10.81 compensating balance per check required of the most economical State in the second quartile, and assuming that the other 23 States could obtain similar prices through negotiation or competitive bidding, we estimate these States could collectively transfer over \$25 million from their benefit accounts to the Trust Fund. Annual Trust Fund earnings would increase by about \$1.5 million, and the Treasury would retain about \$983,000 of this amount. Our analysis is summarized on the following page.

| | <u>States with outstanding loans</u> | <u>States without loans</u> | <u>Totals</u> |
|---|--|-------------------------------------|---------------|
| Number | 12 | 11 | 23 |
| Potential reduction in bank balances | \$16,388,000 | \$8,915,000 | \$25,303,000 |
| Annual increase in Trust Fund earnings | \$ 983,000 | \$ 535,000 | \$ 1,518,000 |

Additional savings could also be achieved in the clearing accounts where we also noted wide cost variations among the banks.

LABOR'S GUIDANCE ON BANKING
ACTIVITIES SHOULD BE IMPROVED

In addition to improved monitoring, Labor also should revise its guidance on banking arrangements for the State employment security agencies. Existing guidance on compensating banks and selecting bank services fosters inefficient and costly cash management practices.

Separate bank accounts being
considered for unemployment insurance funds

Some States commingle unemployment insurance funds with funds for other employment programs in the same bank account. Although existing guidance does not prohibit this practice, we believe that Labor cannot monitor and assess the cash management performance of the States when the funds are commingled. This practice also prevents Labor from determining whether the States are complying with statutory requirements that unemployment insurance funds be used solely for the payment of unemployment benefits.

Labor is revising its guidance to require that all States maintain separate clearing and benefit bank accounts for unemployment insurance program funds. In a September 26, 1978, letter, (see app. I) Labor advised us that the existing guidance has not prevented the diversion of unemployment insurance funds for unauthorized State purposes and said that a new regulation will be issued in the near future. This regulation will restrict the availability of unemployment funds to essential purposes.

Guidance on nonessential bank services
and bank compensation needs revision

In October 1977, Labor designated several banking services as nonessential for the maintenance of States' clearing and benefit accounts. Nonessential services were defined as services desired by the States but not necessary for processing benefit checks or maintaining clearing accounts. Examples of bank services considered nonessential include

- microfilming checks,
- reconciling accounts,
- developing statistics,
- purchasing check stock, and
- using lock boxes.

We believe that classifying these banking services as nonessential could be uneconomical, since cash managers should use all services provided by banks which can save money. To exclude such services as lock boxes or account reconciliation without considering their costs and benefits is not a good business practice.

In the same October 1977 directive, Labor also outlined its policy on compensation for banking services, but the policy is confusing. On one hand, Labor advised the States that they could not maintain guaranteed balances in the benefit or clearing accounts to compensate banks for their services. Yet Labor recognized that balances can exist and told the States that the banks' earnings from benefit and clearing account balances should ordinarily cover the costs of essential banking services. Furthermore, Labor said that costs associated with nonessential services may also be offset to the extent that bank earnings exceed that amount needed for essential services.

We believe that Labor should encourage the States to determine what services the banks can provide and to use them if they are cost beneficial. In addition, the States should be encouraged to negotiate reasonable charges for banking services or to use competitive bidding for selecting banks.

CONCLUSIONS

Many State employment security agencies could increase Trust Fund earnings by obtaining more economical banking arrangements and by reducing their account balances to the minimum levels required by their banks. Although Labor is responsible for monitoring State banking practices, neither Labor headquarters nor its regional offices have established routine monitoring procedures to identify States with inefficient and possibly costly banking relationships.

In addition, Labor's guidance on State banking arrangements is inadequate and needs to be revised. Specifically, existing guidance does not prohibit the commingling of unemployment insurance funds with other program monies or require adequate controls to prevent the diversion of unemployment insurance funds for unauthorized State purposes. Also, Labor's guidance is too restrictive regarding which banking services a State can use, and the guidance should be revised to allow the States to consider all banking services that save money.

RECOMMENDATIONS

We recommend that the Secretary of Labor:

- Establish an effective system for regular monitoring of State banking arrangements, based on information reported by the banks on monthly account analyses.
- Revise and clarify the Department's guidance on compensating banks and selecting banking services.

AGENCY COMMENTS

In its September 26, 1978, letter and in subsequent informal discussions on this report, Labor said it is in the process of contracting out for a study of State cash management practices, including banking arrangements. The contractor will also develop an improved management system and training package for State and Federal staffs involved in management of unemployment monies. Labor is also revising and expanding guidance to the States on bank services and compensation.

U.S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
WASHINGTON, D.C. 20213



SEP 26 1978

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

Dear Mr. Scantlebury:

7

This is to thank you for your letter of August 8, 1978, advising me of the preliminary observations from your review of State unemployment fund banking arrangements. The review is very timely and has already been of assistance to our staff in identifying and resolving problem areas in unemployment fund transactions.

As you know, responsibility for monitoring banking activities reverted to this office in October 1977 when the Treasury Department withdrew from a "compensating balance arrangement" through which banking services and costs were administered under modified treasury depository rules.

A summary review by our staff at that time indicated a need for close monitoring and a formal set of standards to insure compliance with the restrictions placed on unemployment funds in the Social Security Act. Our findings are confirmed by your study. We are currently revising fund management procedures from U.S. Treasury criteria to Department of Labor standards. These standards will appear as procedural changes in the Employment Security Manual and in the Code of Federal Regulations where necessary to insure compliance with the deposit and withdrawal provisions in Section 303 of the Social Security Act and Section 3304 of the Federal Unemployment Tax Act.

You requested comments in six specific areas and indications of corrective actions being taken:

1. We concur that high bank balances maintained by States in benefit payment accounts is a problem. Restrictions to be placed on withdrawals from the trust fund should reduce these excess balances to a minimum.

2. The entire cash management portion of the Employment Security Manual is being rewritten and will certainly revise the one week drawdown formula which has stood since 1938 when all transactions were done by mail. On June 1, 1978, the Treasury Department instituted mandatory wire transfers of funds to States for benefit payments. This means there is no need for withdrawal of funds to cover several days since transfers are immediate and can be made daily.
3. The bank service charges problem is one that has been neglected since earnings on account balances have always covered the costs. States will be made aware of the necessity to closely monitor costs since any costs not met through account earnings must be paid from agency funds.
4. We have tried with little success to identify those States that require funds to be on deposit before checks are written. If such statutes do exist they are not in State UI laws. It is our opinion that in most cases the prohibition against writing checks before funds are on deposit is a procedural or policy requirement of the State Treasurer's Office. Since this is a crucial area in cash flow policy we will survey the States to determine if the restriction is in law, or is a procedural matter which can be adapted to a wire transfer system. Possible legal implications of a more restrictive fund flow policy will also be requested and provided. We hope to have this information by mid-October.
5. The monitoring system developed through your staff review is being considered for inclusion in our ES Manual monitoring procedures. It appears to be a promising tool for performing a quick analysis of several reports. The validity of the suggested costing formulas can only be determined through actual application and study of results over a period of time.

The Unemployment Insurance Service is taking the following positive actions to reduce or eliminate the problems indicated in your review of State banking arrangements.

1. A new regulation is now in its second draft stage. Its purpose is to expedite the movement of unemployment funds at all levels and to restrict availability to essential


UI purposes. A regulation is deemed necessary since current policy has proven inadequate to prevent diversion of UI funds for other State purposes.

2. The ES Manual as it pertains to trust fund and State banking procedures is being completely rewritten with emphasis placed on fund management responsibilities of State ES personnel.
3. Contractual assistance is being solicited to study fund management procedures in State Employment Security Agencies and to develop an improved fund management system and training package coordinating State and Federal procedures. Training sessions will be conducted for appropriate State, National, and Regional Office staff involved in fund management.
4. Preliminary systems design and data base development work is underway to automate fund management reports for more efficient monitoring and control purposes. The formulas developed in your review are being studied for inclusion in this system.

Our staff has benefited greatly from the efforts of your people in this review. Our combined efforts should result in an effective fund transfer system that maintains the balance of authority between the States and the Federal Government.

Please do not hesitate to contact me if I may be of further assistance.

Sincerely,


ROBERT B. EDWARDS
Acting Administrator
Unemployment Insurance Service

AVERAGE TIME COLLECTED FUNDS WERE ON
DEPOSIT IN THE CLEARING ACCOUNT
BEFORE TRANSFER TO THE TRUST FUND

(Based on January-March 1978 Account Analyses)

| <u>State/territory</u> | <u>Calendar days</u> |
|------------------------|----------------------|
| Idaho | 0.0 |
| Massachusetts | 0.0 |
| Missouri | 0.0 |
| New Hampshire | 0.0 |
| South Dakota | 0.0 |
| Texas | 0.0 |
| Vermont | 0.0 |
| Wisconsin | 0.0 |
| Mississippi | 0.5 |
| New York | 0.8 |
| Louisiana | 1.2 |
| New Jersey | 1.6 |
| Kentucky | 1.6 |
| Nebraska | 1.8 |
| Kansas | <u>a/1.9</u> |
| New Mexico | 2.1 |
| Illinois | 2.2 |
| Alabama | 2.6 |
| Maryland | 2.6 |
| Michigan | 2.7 |
| South Carolina | 3.8 |
| North Carolina | 4.0 |
| Tennessee | 4.8 |
| Puerto Rico | 4.9 |
| Hawaii | 9.8 |

a/Data available for 2 months.

AVERAGE TIME TRUST FUND MONEY WAS
WITHDRAWN BEFORE ACTUALLY NEEDED
TO PAY UNEMPLOYMENT BENEFITS

(Based on January-March 1978 Account Analyses)

| <u>State/territory</u> | <u>Calendar days</u> |
|------------------------|--------------------------|
| New York | 1.8 |
| Missouri | 2.9 |
| Alaska | 3.2 |
| California | 3.5 |
| Michigan | 4.4 |
| Illinois | 4.7 |
| North Carolina | 4.7 |
| Nebraska | 4.8 |
| South Carolina | 4.8 |
| Massachusetts | 4.9 |
| Minnesota | 5.6 |
| West Virginia | 5.6 |
| Tennessee | 5.8 |
| Wisconsin | 6.4 |
| New Hampshire | 6.7 |
| Georgia | 6.7 |
| Texas | 6.8 |
| Maine | 7.1 |
| Idaho | 7.2 |
| Colorado | 7.3 |
| Maryland | 7.4 |
| Washington | 7.7 |
| Connecticut | a/7.8 |
| Kansas | 8.0 |
| Vermont | 8.7 |
| Virginia | 8.9 |
| Wyoming | 9.1 |
| New Mexico | 9.2 |
| South Dakota | 9.2 |
| Delaware | 9.8 |
| Arkansas | 10.4 |
| Arizona | 10.7 |
| Alabama | 12.3 |
| Kentucky | 12.7 |
| Hawaii | 13.1 |

a/Data available for 2 months.

STATES MAINTAINING BENEFIT AND/OR
CLEARING ACCOUNT BALANCES EXCEEDING THE
AMOUNTS REQUIRED BY THEIR BANKS

(Based on January-March 1978 Account Analyses)

| <u>State/territory</u> | <u>Daily average excess balances</u> | | <u>Total</u> (note a) |
|------------------------|--------------------------------------|-------------------------|--------------------------|
| | <u>Benefit account</u> | <u>Clearing account</u> | |
| Alabama | 2,173,651 | 106,605 | 2,280,256 |
| California | <u>c/3,601,159</u> | (b) | <u>c/3,601,159</u> |
| Colorado | 1,360,699 | (b) | 1,360,699 |
| Connecticut | 228,883 | 3,634,099 | 3,862,982 |
| Delaware | 904,521 | 112,608 | 1,017,129 |
| Georgia | (b) | <u>c/556,187</u> | <u>c/556,187</u> |
| Idaho | 656,320 | (37,155) | 619,165 |
| Illinois | 4,327,457 | (173,237) | 4,154,220 |
| Kentucky | 3,110,167 | (89,500) | 3,020,667 |
| Louisiana | 394,906 | (106,921) | 287,985 |
| Michigan | <u>c/2,306,891</u> | <u>c/1,433,731</u> | <u>c/3,740,622</u> |
| Mississippi | 874,548 | 9,398 | 883,946 |
| New Hampshire | 255,787 | (189,827) | 65,960 |
| New Mexico | (58,343) | 67,528 | 9,185 |
| New York | 3,912,139 | 66,796 | 3,978,935 |
| South Carolina | 312,122 | 509,123 | 821,245 |
| Tennessee | 326,860 | 676,790 | 1,003,650 |
| Wisconsin | 1,656,879 | (829,607) | 827,272 |
| Wyoming | 186,502 | 1,186 | 187,688 |
| Puerto Rico | (b) | <u>1,048,863</u> | <u>1,048,863</u> |
| Total | <u>\$26,531,148</u> | <u>\$6,796,667</u> | <u>\$33,327,815</u> |

a/Some States maintained benefit and clearing accounts in the same bank; in these cases we netted the excesses in one account against any deficits in the other. For States maintaining benefit and clearing accounts in different banks, we included/only the excesses.

b/Data unavailable or no excess existed in accounts.

c/Amounts shown include excesses in more than one benefit and/or clearing bank account.

COMPARATIVE CHARGES FOR
CLEARING ACCOUNT BANKING SERVICES

(Based on January-March 1978 Account Analyses)

| <u>State/territory</u> | <u>Collected balance required per month per deposit item</u> |
|------------------------|--|
| Mississippi | \$ 3.09 |
| South Carolina | 4.39 |
| Idaho | 5.98 |
| Hawaii | 6.05 |
| New Mexico | 6.52 |
| New Hampshire | 6.69 |
| Tennessee | 7.57 |
| North Carolina | 7.85 |
| Vermont | 8.32 |
| New York | 8.57 |
| Massachusetts | 8.76 |
| Connecticut | 10.55 |
| Kansas | <u>a/11.40</u> |
| Missouri | 11.52 |
| Nebraska | 11.78 |
| Delaware | 11.79 |
| New Jersey | 12.11 |
| Michigan | <u>a/12.26</u> |
| Georgia | <u>b/12.47</u> |
| Maryland | 13.38 |
| Louisiana | 18.78 |
| Kentucky | 20.00 |
| Alabama | 20.36 |
| Texas | 22.66 |
| Puerto Rico | 25.75 |
| Wisconsin | 27.01 |
| Washington | <u>b/35.77</u> |
| Illinois | 41.94 |

a/Data available for 2 months.

b/Amounts shown are the average of required balances for
accounts in different banks.

COMPARATIVE CHARGES FOR BENEFIT ACCOUNT BANKING SERVICES

(Based on January-March 1978 Account Analyses)

| <u>State/Territory</u> | <u>Collected balance required per month per check processed</u> |
|------------------------|---|
| Mississippi | \$ 3.54 |
| Idaho | 4.94 |
| Missouri | 5.84 |
| Colorado | 6.84 |
| Arkansas | 6.90 |
| Arizona | 7.28 |
| New York | 7.60 |
| California | b/10.78 |
| West Virginia | 10.81 |
| New Hampshire | 12.68 |
| Wyoming | 13.65 |
| Wisconsin | 14.31 |
| Minnesota | 14.80 |
| Tennessee | 14.86 |
| Massachusetts | b/15.72 |
| Michigan | b/16.07 |
| Alaska | 16.61 |
| Delaware | 16.84 |
| Georgia | 18.25 |
| Illinois | b/18.30 |
| Maine | 18.97 |
| Nebraska | 19.43 |
| Alabama | 20.52 |
| Washington | 20.94 |
| South Carolina | 21.57 |
| Kentucky | 21.81 |
| Vermont | 21.83 |
| New Mexico | 24.35 |
| Maryland | 25.87 |
| Virginia | 28.47 |
| Rhode Island | 30.97 |
| Connecticut | a/33.41 |

a/Data available for 2 months.

b/Amounts shown are the average of required balances for accounts in different banks.

(90615)

Single copies of GAO reports are available free of charge. Requests (except by Members of Congress) for additional quantities should be accompanied by payment of \$1.00 per copy.

Requests for single copies (without charge) should be sent to:

U.S. General Accounting Office
Distribution Section, Room 1518
441 G Street, NW.
Washington, DC 20548

Requests for multiple copies should be sent with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, DC 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. NOTE: Stamps or Superintendent of Documents coupons will not be accepted.

PLEASE DO NOT SEND CASH

To expedite filling your order, use the report number and date in the lower right corner of the front cover.

GAO reports are now available on microfiche. If such copies will meet your needs, be sure to specify that you want microfiche copies.

AN EQUAL OPPORTUNITY EMPLOYER

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

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS