BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of The Treasury

Improvements Needed In Controlling And Accounting For Treasury Banking Arrangements

The Department of the Treasury has established various systems and arrangements with commercial banks for handling federal agencies' deposits. In each system, the primary objective is to accelerate the flow of funds to Treasury and, thereby, minimize federal borrowing. Bank delays in transferring the funds increase the government's interest cost to the extent that additional funds must be borrowed to meet commitments.

After reviewing the systems, GAO determined that certain additional controls are needed to prevent and detect bank delays. GAO also found improvements are needed to ensure that commercial banks are fairly compensated for their services and that control over related costs is adequate.

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

ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

B-211374

The Honorable James A. Baker, III
The Secretary of the Treasury

Dear Mr. Secretary:

In 1982, the Department of the Treasury's Inspector General reported that some commercial banks participating in the Treasury General Account (TGA) system had delayed the transfer of funds, which were deposited by government agencies, to Treasury's account at the Federal Reserve Banks. Based on information compiled by the Inspector General, Treasury's costs were being increased by about $14 million annually because the delays deprive Treasury of the use of the funds and increase the government's interest cost to the extent that additional funds must be borrowed to meet commitments.

Under the TGA system, about 500 commercial banks nationwide receive, confirm, and process federal agency deposits. The banks are to transfer the funds to Treasury's Federal Reserve account and are compensated for providing these services.

Treasury's Financial Management Service (FMS), formerly the Bureau of Government Financial Operations, is now revising the TGA system and developing different techniques for detecting bank delays. The revised system provides for greater automation of the transfer process, including electronic funds transfer--to eliminate delays caused by mailing deposit information from the banks to the Federal Reserve--and offers the potential of significantly faster movement of funds to the Treasury compared with the old system. However, our review of the revised system found that certain improvements are needed to prevent and detect bank delays.

We also reviewed and found deficiencies in controls over bank delays of funds collected through lockboxes and the Treasury Financial Communications System (TFCS), and the methods of controlling and reporting banking costs so that banks are properly compensated and the government's costs are minimized. Our specific findings include the following:

--The revised TGA system continues to rely on the commercial banks to initiate the transfer of agency deposits to Treasury's Federal Reserve account, even though banks have delayed funds transfers in the past. Similar systems in both the private and government sectors, such as the U.S. Postal Service and the Farmers Home Administration, frequently have the depositing unit, rather than the bank, initiate the funds transfer. We believe such a system could eliminate the potential for delays caused by banks.

--Although FMS relies on agencies and their internal audit groups to identify delays, FMS has not properly provided guidance to the agencies for carrying out their responsibilities.

--FMS has not fully evaluated whether operation of the revised TGA system by the Federal Reserve, rather than commercial banks, could provide greater control at less overall cost to the government. Our analysis indicates that such an alternative could potentially accomplish both objectives.

--FMS has not consistently charged banks for delaying funds transfers.

--FMS has neither established internal operating procedures, nor issued procedures for the agencies to follow in monitoring lockbox collections for bank delays. With lockboxes, debtors mail their payments to a postal box serviced by commercial banks that forward the collections to Treasury's Federal Reserve account.

--Current procedures provide for TFCS deposits to be rejected at the Federal Reserve when apparent errors in coding agency identification data are made. A more prudent cash management technique would be to deposit the funds pending correction of the error, but Treasury has not determined whether such a procedure would be cost-effective.

--FMS pays for banking services with compensating balances (non-interest bearing deposits) at the banks. These balances are not a part of the FMS appropriation and FMS does not include them in its budget. Using these balances rather than appropriations reduces the visibility of banking costs, avoids the congressional oversight through the appropriation process, and reduces the incentive for minimizing costs. Further, FMS has not adequately monitored banking costs and some banks may be over or underpaid as a result.

Our findings are presented in detail in appendix I.

The objectives of our review were to evaluate: the controls for preventing and detecting bank delays in the collection mechanisms; whether revisions in the TGA system will solve reported deficiencies; and the procedures for establishing and controlling banking arrangements. Our work was performed primarily at Treasury. We also performed limited work at the Federal Reserve Board and five Federal Reserve banks that were individually selected based on their geographic dispersion and involvement in handling government collections. Appendix III describes our scope and methodology.

We recognize that FMS attempted to improve the TGA system as expeditiously as possible, and that long-term plans are being developed for more efficient collection systems in the future. However, to ensure that needed improvements in current operations are made, we are making the following recommendations to you:

--Examine alternative controls for preventing and detecting bank delays in transferring agencies' deposits. These alternatives should include requiring agencies, rather than commercial banks, to initiate funds transfers from the TGA banks to the Treasury's Federal Reserve account. This could potentially eliminate delays caused by banks.

--Advise federal agencies of their responsibilities for detecting bank delays.

--Evaluate whether Federal Reserve operation of the revised TGA system would produce greater control at less overall cost to the government.

--Charge all banks delaying funds transfers.

--Establish control standards for monitoring lockbox collections that must be implemented by all agencies using those systems.

--Determine whether it would be cost-effective to revise current procedures to allow the Federal Reserve to accept funds received through the TFCS even though agency identification data may be inaccurate.

--Include costs of compensating banks for banking services in the Department's annual appropriation request.

--Consistently monitor bank charges and compensation to ensure that the overall costs to the government are minimized.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on this report (see p. 22), Treasury stated that the modernized TGA system is a significant improvement over the previous system, and should be recognized as an important step forward in the government's cash management program. Treasury also stated that we provided some valuable insight which it will take into consideration as it continues to improve its financial systems.

In regard to our recommendations, Treasury said several enhancements and improvements had been made since our audit was completed addressing many of our concerns, and indicated the intent of some of our recommendations may be achieved through alternate means. The Treasury comments, which are shown in appendix IV, included the following:

--It would be difficult, if not impossible, to exercise effective control over agencies initiating funds transfers. Instead, system enhancement and increased monitoring of detailed deposit information will meet the same control objectives. If such control is not achieved, alternatives will be investigated to ensure that proper controls exist.

--All agencies now receive monthly listings of deposit information which, if properly reconciled, can enable them to determine if a bank has mishandled any deposits. Before the revised TGA system is fully implemented in September 1985, Treasury will emphasize agencies' responsibilities in that regard and take appropriate action to coordinate the efforts of all inspectors general.

--An automated account analysis module, scheduled for implementation in September 1985, will automatically capture deposit and reporting dates and compute earnings to Treasury for all fund transfer delays.

--Detailed operating procedures for Treasury review and monitoring of lockbox collections will be finalized by April 1985, and preparation of similar guidelines for the agencies is also planned for fiscal year 1985. During fiscal year 1984, Treasury implemented a User Agency Survey to assess the quality and effectiveness of each bank's lockbox process.

--A major TFCS design review during fiscal year 1985 will examine the problem of fund transfer delays resulting from system edits. In addition, Treasury has undertaken an assessment with the banking industry on how to better communicate Treasury's wire format requirements to commercial banks.

--The automated account analysis module will generate account analyses for all TGA banks, and project estimates of appropriate levels of compensation. To ensure minimum overall costs to the government, Treasury has expanded the program so that high dollar volume accounts and special services, such as cash concentration, are competitively bid, and has attached major emphasis to lockboxes.

--Treasury is willing to report to the Congress on banking services obtained through compensating balances if such information would be useful.

We are encouraged by Treasury's positive actions and appreciate the responsiveness to our recommendations. It is essential that Treasury continue its efforts toward better control and ensure that adequate safeguards are implemented as soon as possible.

Although Treasury has made some significant progress, we remain concerned about possible delays in funds transfer in the revised TGA system, because delays cannot be prevented and must be detected through the consistent monitoring of reports provided to the agencies. Past audit work has shown that some agencies do not place a high priority on reconciling deposit information. Therefore, we continue to believe Treasury needs to examine alternative control mechanisms for preventing and detecting bank delays, including agency initiation of the transfers. Treasury's primary objections to that alternative are that agencies could not be controlled to provide accurate deposit information to the banks, and that the frequency with which agencies make deposit errors would place an added burden on the banks. However, Treasury officials said that data is not available on the extent to which agencies make deposit errors.

As for controlling the agencies and ensuring that they handle the system properly, Treasury could consider applying the authority granted in Section 2652(a)(1) of the Deficit Reduction Act of 1984 (Public Law 98-369). That law requires executive agencies to provide for the timely deposit of money under such regulations as the Secretary of the Treasury may prescribe, and authorizes the Secretary to collect from any executive agency not complying with the prescribed requirements a charge in an amount the Secretary determines to be the cost to the general fund caused by such noncompliance. More detailed discussions of Treasury's comments are included where appropriate in appendix I.

The Board of Governors of the Federal Reserve System, who were also asked to comment on the report, said they are prepared to work with Treasury to consider more extensive utilization of the Federal Reserve banks for the receipt of funds transfers initiated directly by government agencies, and for operation and control of the revised TGA system. The Board's letter is in appendix V.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter, and to the Senate and House Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

This report is also being sent to the Director of the Office of Management and Budget, the Chairman of the Board of Governors of the Federal Reserve System, and interested congressional committees.

Sincerely yours,

F. D. Wolf

Frederick D. Wolf
Director

C o n t e n t s

ILLUSTRATION

IMPROVEMENTS NEEDED IN CONTROLLING AND ACCOUNTING FOR BANKING ARRANGEMENTS

BACKGROUND

FMS has established various mechanisms for handling agency collections, each with the primary objective of providing an efficient and reliable means of promptly transferring collections to Treasury's account at the Federal Reserve. By accelerating cash flow, these mechanisms can (1) minimize expenses by reducing or postponing borrowing needed to finance government operations, or (2) defer the need to withdraw funds from Treasury's tax and loan investment accounts where they earn interest when taxpayers make payments at participating financial institutions.

In addition to the Federal Reserve Banks (FRBs) that provide deposit services for Treasury, the three mechanisms through which agency collections are processed are TFCS, agency lockboxes, and the TGA system.

Treasury Financial Communications System

TFCS is Treasury's electronic collection (and payment) system in which agency debtors are instructed to have their banks wire payments to Treasury's Federal Reserve account. In fiscal year 1983, about $92 billion was collected by means of TFCS, which is supposed to make the funds immediately available to Treasury.

By providing immediate availability to Treasury, agency processing, mail handling, and check-clearing times are avoided and, as a result, Treasury can lower its interest costs by reducing the amount it borrows. In 1976, the first year of operation, Treasury estimated the system achieved $9 million in interest savings. By 1982, Treasury reported the saving had grown to $149 million. Other reported benefits include (1) the elimination of checks and, in turn, the lower risk of loss, theft, and forgery, (2) reduced paperwork, and (3) improved financial reporting.

Lockboxes

A lockbox is a postal rental box serviced by a commercial bank where agency debtors are instructed to mail their payments. After the payments are picked up, they are to be quickly processed and the funds transferred to Treasury's Federal Reserve account the same day the payment was delivered to the post office box. After processing the payment, the banks will transmit accounting documents to the agency for posting accounts receivable, late fee billings, and preparation of accounting statements.

Although lockbox collections totaled $1 billion in fiscal year 1983, Treasury expects to increase annual collections in the next several years to $50-70 billion. In 1983, President Reagan's Private Sector Survey on Cost Control (also known as the Grace

Commission), and the Office of Management and Budget's Reform '88 Project to improve federal management and administrative systems, endorsed the lockbox system as a means for achieving savings through improved collections and reduced paperwork and personnel. Lockboxes can accelerate collections because by selecting the fastest post office and the optimum check-clearing times for a given group of payments, receipts can be credited to Treasury's Federal Reserve account faster. Additionally, because payments go to the bank first instead of the agency, processing time is reduced. Another expected benefit is a reduction in agency personnel because of a shift of the agency's functions to the bank.

Treasury General Accounts

Since the establishment of the Federal Reserve System in 1913, the Treasury has used FRBs and their branches as direct depositaries. These facilities are available in 37 cities. However, hundreds of agency collection offices are located throughout the United States. Thus, to reduce check clearing time and speed collections, Treasury has supplemented FRBs by designating about 500 commercial banks at 700 locations as general depositaries maintaining TGAs. In fiscal year 1983 these banks processed about $137 billion in agency receipts.

In general, a depositary is authorized to accept deposits and supporting documentation from a number of government agencies and to consolidate the deposits each day. The institution is instructed to transmit the funds for deposit in Treasury's Federal Reserve account. The FRB then credits Treasury's account and forwards payment data to FMS to update accounts and to compare against monthly agency statements containing summarized deposits.

In 1982, Treasury's Inspector General (IG) reported[1] that delays in making funds available through the TGA system have cost the Treasury an estimated $19 million annually in unnecessary interest costs. The delays deprive Treasury of the use of the funds and increase the government's interest cost to the extent that additional funds must be borrowed to meet commitments. Based on information in the report, 74 percent ($14 million) of the interest cost was attributed to bank delays resulting from internal processing problems, failure to forward accurate and complete deposit information to the FRB, and the use of mail (rather than wire) to transfer funds to the FRB. The remainder of the unnecessary interest was attributed to agencies making late deposits. The IG's estimates were based on a 5-day deposit sample selected during 1982. The IG recommended Treasury improve its monitoring of TGA banks and eliminate the underlying causes of identified delays.

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[1] Review of Treasury's General Accounts and Compensating Balance Agreements, Department of the Treasury, Office of the Inspector General, December 1982, p. i.

In an effort to eliminate bank delays, improve monitoring to ensure timely transfer, and reduce paperwork and personnel costs, FMS is revising and automating the TGA system. Design of the system began in early 1982 and full implementation is expected to take place by September 1985.

FMS believes that with changing collection technologies, the revised system represents a short-term improvement that will probably undergo change in another 3 to 5 years. FMS, which is developing long-term plans to improve its collection operations, anticipates that collection through the revised system will be reduced in favor of more efficient systems tailored to specific types of collections.

Under the revised system, commercial banks continue to receive, process, and consolidate agency deposits. The TGA system before and after the revision is diagrammed on page 4. At the end of every business day, the banks report deposit and debit information by telephone or computer to a private data service facility instead of an FRB for consolidation. This differs from the old system in which TGA banks could mail deposit data to the FRBs. On the day after deposit, five TGA banks, through a combination of automated clearing house (ACH)[2] transactions and other electronic means, receive funds from the other TGA banks for the amount reported and forward total funds to the FRB of New York for credit to Treasury's account. The data service facility also places deposit information into an accounting file and forwards accounting data to FMS for monitoring and coordinating the monthly reconciliation of TGA accounts with individual agencies. The five banks are referred to as "concentrator" banks since all of the collections are consolidated there prior to transfer to the Federal Reserve.

To determine the adequacy of the action taken in response to the IG's recommendations, we evaluated whether the revised TGA system will provide the necessary controls that will ensure timely funds transfer. We also evaluated the controls over the TFCS and lockbox systems, and the adequacy of FMS procedures for ensuring that the most economical banking arrangements are established, and for controlling and accounting for the related costs.

CONTROL OVER THE REVISED TGA SYSTEM SHOULD BE STRENGTHENED TO PREVENT BANK DELAYS

The revised TGA system should have adequate controls to verify that banks transfer government funds to Treasury's account at the Federal Reserve promptly and completely. However, FMS and the agencies will have difficulty in preventing and detecting delays in transferring the funds because

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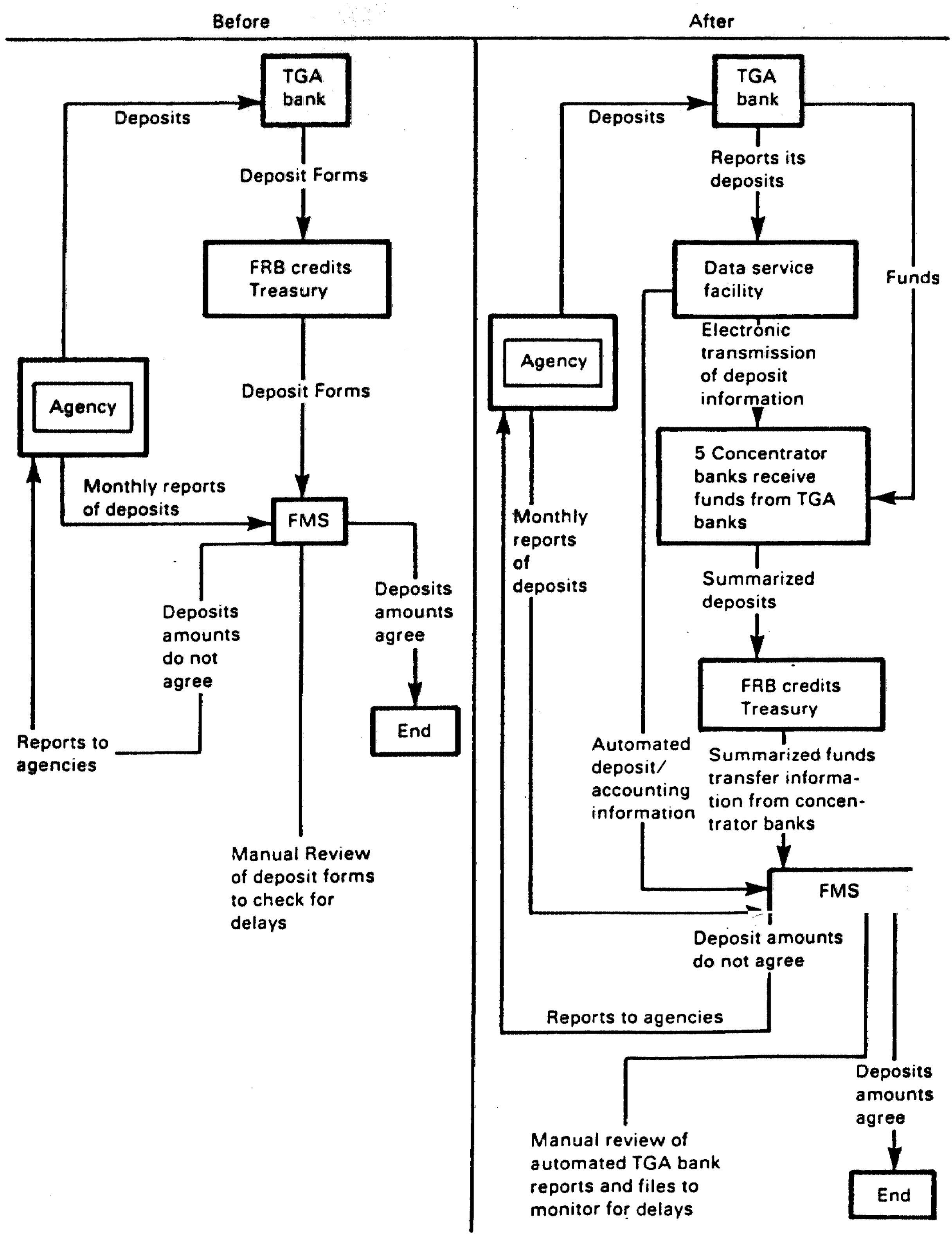
[2]ACHs are computerized operations at FRBs or private organizations that clear or settle items representing receipt and disbursement transactions between accounts at different banks.

TGA SYSTEMS BEFORE AND AFTER REVISIONS



--the system relies primarily on verbal reports from the banks which may result in data inaccuracies and

--FMS has not provided the agencies with the specific guidance necessary to identify bank delays.

In addition, although FRB operation of a TGA system offers the potential of greater control at less cost, FMS has not fully evaluated that alternative.

Controls needed to prevent bank delays

Because the revised TGA system will rely on the integrity of deposit information reported by the TGA banks to control the transfer of funds to Treasury's FRB account, FMS will lack the capability for independently verifying that TGA banks transfer the funds promptly. Banks have delayed funds in the past and can benefit from delays by investing the funds and earning interest.

To avoid bank delays, FMS could have the agencies, rather than the TGA banks, report the deposits to the data service facility and, thereby, initiate the ACH funds transfers from the TGA bank to Treasury's Federal Reserve account. The government would then no longer need to rely on the TGA banks to initiate the transfers. According to Federal Reserve officials at the five FRBs we visited, individual depositing units of private companies frequently are responsible for reporting funds for concentration into a single account. An official from a private association for ACH operations also told us that most concentration systems in industry are originated by the depositor.

The U.S. Postal Service already operates a cash concentration system in which the depositors (local post offices) initiate the transfers by reporting their deposits by telephone. In fiscal year 1983, over $33 billion in postal receipts were deposited in commercial banks through that system. According to a Postal Service official, about 7,500 banks participate in the system. After making deposits, about 8,500 depositing units call in the fund transfer messages so the funds can be concentrated and invested by Postal Service Headquarters. In addition to the Postal Service system, which has been operational for several years, the Farmers Home Administration, which is part of the Department of Agriculture, is implementing a similar system for its local offices that collect loan payments. According to an Agriculture official, the Farmers Home Administration began development of the concentration banking method in March 1983. Operational testing began in October 1983 at local offices in Georgia; and in January 1984, the system had been expanded to offices in Missouri, Oregon, Wisconsin, and Florida. An Agriculture official stated the system would eventually become fully operational at their 2,200 local offices nationwide, with over 2,000 banks participating. These illustrations indicate the feasibility of agencies initiating funds transfers rather than the banks as planned in the revised system.

According to Treasury's IG report, one reason the banks caused fund transfer delays was that they were mailing documentation on deposits received from agencies to the FRBs. Because the actual movement of funds to Treasury's account from the TGA bank normally did not occur in these cases until the document was received at the reserve bank, the TGA bank had the opportunity to invest the funds and earn interest. Although the use of the mail in the revised system has been eliminated, the opportunity for delay still exists because the banks determine when the funds will be transferred as well as report the deposit date information needed to identify delays. Further, the IG pointed out that bank internal processing problems caused 21 percent of the $74 million in delays identified from its 5-day deposit sample selected during 1982. We believe that unless depositing units initiate the funds transfers, the opportunity for delays will continue.

Planned bank monitoring system will not ensure identification of all delays

Under the revised TGA system, FMS will use automated reports initiated by banks to monitor deposits to Treasury. The primary method FMS will use for identifying delays will be to compare the date funds were presented to the bank to the date the bank reported the deposit to the data service firm. Both dates are provided by the banks; FMS will not be able to independently verify that banks correctly reported the dates agencies deposited funds. An FMS official advised us that FMS plans to address detection of delays by sampling deposit reports, and providing the information to agencies which will perform internal audits and compare bank reported dates, to agency deposit dates on original deposit tickets. At the time our review ended, no procedures had been developed to inform agency internal audit groups of this responsibility. Further, a means of preventing rather than detecting delays would be preferable.

Errors may occur in reporting deposit information

The banks will be transmitting deposit (funds) and accounting data to the data service facility primarily by telephone calls. However, because the amounts of data transmitted in each call could be extensive--possibly as much as 256 characters (numbers and letters)--we believe that human error could occur and result in data inaccuracies. Reliability concerns with voice transmission also were raised by FMS accounting staff.

The Postal Service and Farmers Home Administration depositing units also telephone deposit data to a data service firm. A postal official said they have experienced only a 1 percent error rate in the thousands of calls they make monthly. However, calls made by the Postal Service are not comparable to the planned TGA system because substantially less information is transmitted. The Postal Service calls contain up to 18 characters needed to initiate the funds transfer and provides control techniques, such as check digits, to help ensure data accuracy. The check digit is a code based on the transmitted information and is sent back to the caller, who then compares the check digit to the deposit information to ensure that the data service facility received accurate information.

We believe calls made by agencies could be less error prone than those that will be made by the commercial banks in the planned TGA system because, like the Postal Service system, agencies could transmit substantially less information. Rather than following the plan of the revised TGA system to have the banks report bank identification codes, deposit ticket numbers, deposit dates, agency accounting codes, and the amounts of deposits for each agency, the agencies would only need to report their identification codes and deposit amounts. The bank identity could be electronically determined, based on the reporting unit's code, because each depositing unit would make deposits at a single bank. In addition, the information transmitted would be subject to independent electronic verification between the sender and receiver such as through the use of check digits. All other deposit information would be on the deposit tickets forwarded to the Federal Reserve, which would automate the data and submit it to FMS for accounting and reconciliation. This would eliminate the need to verbally transmit an excessive amount of information.

Agency reconciliations of deposits may not detect all delays

FMS officials believe that reconciling differences between agency and bank deposit reports is an important control for ensuring the accuracy and timeliness of deposits. Although FMS officials hope agencies and their internal audit groups will use the reconciliation process to resolve differences and notify Treasury of any delays, FMS has not provided sufficient guidance to the agencies for carrying out that responsibility. FMS instructions have centered on reconciling total monthly deposits rather than detecting delays. It is especially important that guidance be given because the agencies have had primary responsibility for using the reconciliation system to resolve deposit differences since January 1983. FMS was responsible for the reconciliation prior to that time.

FRB operation of the TGA system should be examined for possible control and cost improvements

Federal Reserve operation of the TGA funds transfer system, together with agency initiation of ACH funds transfers through a data service facility, is one option that may be more desirable than the revised system. This option, in which FRBs would replace the concentrator banks, offers the potential of greater control at less overall cost.

Based on discussions with Federal Reserve officials, it would be feasible for the reserve banks to process ACH funds transfers, receive the deposit tickets from the commercial banks, and prepare an automated transcript of deposits for Treasury's accounting needs. Because the transcript would be prepared from the deposit tickets, we believe that the risk of error would be less than the planned system, which relies primarily on verbal transmission of large amounts of deposit data. Thus, the information gathered for monthly reconciliation could be more accurate and reliable. In addition, Federal Reserve officials in Washington and four of the five FRBs we visited said the FRBs have the capability to process deposits through ACH operations that can readily move funds from commercial banks where agency deposits are received to Treasury's Federal Reserve account. This process is contracted out by the fifth FRB we contacted. Officials at four of the FRBs we visited said this is a service provided to their customers, and officials at all five banks said it would be possible to provide this service to Treasury.

The revised system is expected to cost $1.4 million in its first full year of operation (1985). Complete data for all cost elements was not available for comparisons with alternate systems. However, our analysis of major comparable items indicates that Federal Reserve operation of a TGA system could potentially save more than $700,000 annually over the revised system. Our cost analysis and explanation is shown in appendix II.

An FMS official told us that the FRBs were provided the opportunity to make an offer to operate the revised system but declined because of the limited time available for response. Federal Reserve officials we contacted explained that, although they were aware that FMS was considering changing the TGA system as early as September 1982, they did not know of the specific technical requirements until the request for proposal for a cash concentration system was issued in June 1983. They also believed that there was inadequate time to prepare responsive technical offers because FMS allowed about 2 months for submitting offers. According to FRB officials, the timeframes did not permit resolution of policy issues and the preparation of a proposal.

In our discussions of the policy issues with Reserve officials, they commented that the FMS method of paying for banking and data gathering expenses was another major reason for not submitting an offer. FMS will pay for all services by placing a non-interest bearing deposit with one of the concentrator banks. That bank's earnings from this compensating balance will be used to pay for all banking services as well as the expenses of the data service facility. However, a Federal Reserve official in Washington stated that it has been a long-standing agreement between the Federal Reserve and Treasury that FRB costs for providing services to Treasury should be reimbursed on a direct basis through the appropriation process, rather than through a compensating balance.

Agency comments and our evaluation

In commenting on the report, Treasury stated that system enhancement and increased monitoring of detailed deposit information will meet the control objectives achievable by direct agency input and, if not, alternatives will be investigated to ensure that proper controls exist. Treasury also stated (1) it would be difficult, if not impossible, to exercise effective control over the various department and agency field offices to ensure accurate reporting of deposit information, (2) the revised system would be more efficient, and (3) it is likely banks would react negatively if the agencies failed to report deposits accurately.

In recommending that Treasury consider having agencies initiate the funds transfers, we acknowledge that the potential problems mentioned by Treasury must be addressed. However, in our view this has not been done. For example, although Treasury commented that agencies frequently do not present a balanced deposit to the banks, no data is available on how often that occurs. As for controlling the agencies, Section 2652(a)(1) of the Deficit Reduction Act of 1984 (Public Law 98-369) requires executive agencies to provide for the timely deposit of money under such regulations as the Secretary of the Treasury may prescribe, and authorizes the Secretary to collect from any executive agency not complying with the prescribed requirements a charge in an amount the Secretary determines to be the cost to the general fund caused by such noncompliance. Treasury is now developing regulations necessary to carry out the act. Because inaccurate reporting by the agencies can delay funds transfers, Treasury can consider whether the authority granted by the act would be worthwhile in the approach we suggest. Furthermore, close monitoring of the system for fund transfer delays is essential so that any benefit-cost questions regarding efficiency or level of necessary control can be properly assessed. Although the Treasury's Office of Inspector General verified that some banks delayed funds in the past, we could not determine the extent of the delays in the revised system because it was not fully operational at the time of our review. Rather than duplicate the IG's work, we concentrated our efforts on determining whether adequate controls would be implemented in the revised system. Finally, if the agencies are properly controlled, no additional burden should be placed on the TGA banks as Treasury suggests.

Treasury also commented that all agencies now receive monthly reports that should allow the agencies to determine if a bank has mishandled any deposits. In addition, Treasury stated that before the revised system is fully implemented in September 1985, it will take appropriate action to coordinate the efforts of all IGs and emphasize agencies' responsibilities through the distribution of appropriate transmittals. Because funds are already flowing through the revised system, we believe these actions should be taken as soon as possible.

As for Federal Reserve operation of the revised system, Treasury stated all Federal Reserve districts had an opportunity to submit a proposal, and will have another opportunity when the current contract expires in 2 years. In commenting on the report, the Federal Reserve Board stated they are prepared to work with Treasury to consider more extensive utilization of the FRBs for receiving funds transfers initiated directly by government agencies, and for operating and controlling the revised TGA system.

CHARGES FOR FUND TRANSFER DELAYS SHOULD BE CONSISTENTLY ASSESSED

Assessing interest charges on fund transfer delays is useful in deterring banks from delaying the transfers. Without such an effort, banks could assume a lack of concern for timely funds transfers and have no incentive to improve funds availability. FMS has authority to charge banks for the cost of delays, and since the IG's report, has taken positive action to assess interest charges. However, we found that FMS had not assessed charges in all cases.

FMS provided us information which showed that from March to September 1983, five banks other than those identified by the IG were assessed interest charges for delaying funds. The assessed charges totaled about $305,000, ranging from about $8,000 to over $170,000. However, we followed up on the banks the IG determined were delaying funds and found no evidence that FMS recovered the cost of delays, even though the IG recommended such action. Of the 36 TGA banks the IG reviewed, 23 were found to have delayed funds to Treasury. The IG calculated that Treasury lost about $27,000 as a direct result of the bank delays identified in the sample. The IG estimated the annual loss from delays by the sampled banks to be about $1.2 million. FMS officials stated that rather than attempting to charge these banks, they have targeted their limited resources on resolving the systemic problems that have contributed to the delays.

Agency comments and our evaluation

According to Treasury's comments, an automated account analysis module is being designed and scheduled for implementation in September 1985, which will automatically capture deposit and reporting dates and compute earnings to Treasury for all fund transfer delays. At Treasury's option, such earnings can be used to offset the bank's compensation or the banks can be required to make direct payment to Treasury. However, according to Treasury officials, the banks will provide Treasury with the dates necessary to determine whether delays occur. Under this arrangement, bank errors in reporting the dates may not be detected.

CONTROLS OVER LOCKBOX AND TFCS COLLECTIONS SHOULD BE STRENGTHENED TO PREVENT DELAYS

FMS had not established adequate controls to verify that funds are transferred promptly and accurately through lockboxes and TFCS. Because both mechanisms receive payments directly from the public and the banks can determine when the funds are transferred to Treasury, it is difficult for FMS to ensure that the lockbox and TFCS objective of increased fund availability is being achieved. FMS was working to establish the necessary control procedures, but had not completed those efforts at the time we finished our review.

Review and monitoring procedures needed

Adequate procedures specifying how FMS and the agencies should review and monitor lockbox arrangements and deposits had not been developed when our review began. FMS has recognized the need for such procedures, and its fiscal year 1984 plan called for their development. At the time our review ended, lockbox procedures identifying key monitoring steps had been drafted, but lacked the necessary instructions to carry out an effective review program.

Lockbox depositaries use electronic funds transfers for moving the funds into Treasury accounts at reserve banks and FMS is provided daily information on the amount of funds transferred. However, during our review, FMS had no operating procedures for verifying that the fund transfer information agrees with the balances deposited in the accounts maintained at the banks. In one reported instance, $40,000 was delayed for 23 days. The delay occurred initially because the lockbox depositary was unable to transfer funds due to a reserve bank holiday. Instead of including the deposit in the next day's business, the bank transferred the funds 23 days late. FMS might have prevented such an extensive delay if the necessary monitoring procedures had been in use.

Confirming lockbox bank reports will not prevent all delays that could occur because internal processing weaknesses involving mail handling, check sorting, and reconciliation can delay deposit preparation and subsequent funds transfer. Although FMS plans to develop internal review and testing procedures to ensure effective bank processing, such procedures had not been fully developed at the time of our review. According to information provided by one official, FMS conducted a total of four on-site reviews of lockbox activities from about September 1982 to October 1983. No records were available to show what was reviewed in two of the FMS reviews. In the other two reviews, one report indicated that FMS considered the processing controls adequate and the other did not address this matter. Although agencies can detect delays by monitoring the flow of accounting data and deposit messages received, FMS had not required agencies to record this information and assess lockbox effectiveness. Because FMS has limited staff to perform monitoring, we believe enlisting the resources of agencies to examine their receipts and detect delays is vital to provide comprehensive and effective coverage of lockbox operations.

Corrective action needed on TFCS delays

According to an FMS official, prior to April 1983, all TFCS deposits received at the FRBs with coding errors were accepted and funds were credited to Treasury's account. The coding errors generated exception messages that were manually researched by FMS to identify the appropriate agency entitled to receive credit for the funds. In order to reduce the manual processing involved, FMS changed its editing procedures to reduce error messages. However, this procedural change resulted in rejecting deposits which could delay electronic funds transfers until the errors are corrected.

As a result of our concerns about electronic fund transfer delays, FMS contacted the New York FRB, which consolidates deposits from other reserve banks, to identify the number of rejected deposits that were occurring. For April to June 1983, the reserve bank was able to identify 163 rejected deposit messages totaling about $129 million. According to a bank official, the bank did not maintain information to determine when rejected deposit messages were corrected and reentered into TFCS. As a result, the total number of electronic fund transfer delays could not be determined from the list of rejections.

FMS officials agreed that rejected deposits delay funds, and an FMS official informed us of plans to survey FRBs to address the problem. One alternative would be to follow the procedure, in effect prior to April 1983, of accepting the funds pending corrective action. Treasury would then at least receive credit for the funds while assessing the causes of problems and devising effective solutions.

Agency comments and our evaluation

Treasury stated it will complete detailed operating procedures for its review and monitoring of lockbox collections by April 1985, and it also plans to prepare agency guidelines in fiscal year 1985. In addition, Treasury said a user agency survey to assess the quality and effectiveness of each bank's lockbox process was implemented during fiscal year 1984. While these actions represent positive steps, it is essential Treasury issue guidelines for detecting fund transfer delays through lockboxes as soon as possible. Without effective monitoring procedures, the extent of delays that occur is not known.

Treasury also stated that the specific lockbox delay we cited as an example was the only such instance observed since Treasury's lockbox system was initiated. As stated previously, our objective was to evaluate the adequacy of controls for preventing and detecting delays. In our view, the actual extent of delays that have occurred cannot be determined because of the absence of effective means for identifying delays in the past. According to a Treasury official, the delay that we cited was reported by the agency involved.

In regard to TFCS, Treasury acknowledged it still observes some delays in funds transfers due to system edits, but it has not yet compared the cost of these delays to the efforts necessary to correct erroneous wires. Treasury added that, because of the significance and magnitude of its cash management and systems concerns, it has undertaken a major TFCS design review during fiscal year 1985, which will include examining this issue. Further, it has undertaken with the banking industry an assessment about how to better communicate Treasury wire format requirements to commercial banks. We encourage Treasury's efforts in this regard. However, because of the large sums involved, Treasury should determine whether it would be cost-effective to accept the funds for deposit pending any corrective action on the data rejected by the system's edits.

IMPROVEMENTS NEEDED IN ACCOUNTING FOR AND CONTROLLING BANKING COSTS

FMS places non-interest bearing deposits--compensating balances--with commercial banks, and the earnings generated compensate the banks for services they provide. Because the cost of banking services fluctuates based on the volume of government business handled, FMS is responsible for monitoring compensating balances to ensure they are reasonable and the banking arrangements are cost-effective. As of December 1982, over $55 million had been deposited with commercial TGA banks. As of January 1984, FMS had also deposited $25 million with the prime contractor bank selected for the revised TGA system, and about $6 million was on deposit with the same bank for lockbox services.

Using compensating balances to procure bank services means that the costs of these services are not provided for in the FMS appropriation. Consequently, using these balances rather than appropriations reduces the visibility of banking costs and, because they are not subject to congressional oversight through the appropriation process, reduces the incentive for minimizing costs. This financing approach is now being used to acquire services such as personnel training and data processing that normally require congressional appropriations. Furthermore, the FMS determination of the size of compensating balances was questionable because it does not uniformly evaluate the reasonableness of reported charges. As a result, FMS has no assurance that the overall costs to the government are minimized or that banks are paid fairly.

The President's Private Sector Survey on Cost Control recommended Treasury pay banks directly on a fee basis for their services rather than through compensating balances. We did not evaluate that alternative, but believe that at a minimum, the banking costs should be included in Treasury's budget.

True costs of operations not disclosed

It is widely accepted by congressional policy and Comptroller General accounting principles that the production and reporting of significant cost information are essential ingredients for effective financial management. Recording the total cost of agency programs financed by appropriations and by funds from other sources is valuable to managers in promoting cost consciousness vital to economical operations, and in aiding congressional oversight of agency programs.

Costs of compensating balances are disclosed neither in the results of operations nor in the FMS budget or appropriation. This serves to reduce accountability for minimizing costs and improving performance. For example, FMS placed a $25 million compensating balance with the prime contractor bank operating the revised

TGA system to pay the concentrator banks and the data service facility for services to be provided. As mentioned previously, operating costs for the system are expected to reach $1.4 million annually. An FMS official stated the Treasury staff resources no longer needed because of the revised system (estimated to reach about $330,000 annually) would be shifted to other functions. These people were previously engaged in recording data which will now be automated through the concentrator banks. In essence, total FMS operating costs will increase without being subject to the congressional appropriation process because Treasury will be using compensating balances to fund efforts previously funded by appropriations.

Use of compensating balances limits congressional oversight

We found that some compensating balances were being used to pay non-financial institutions for services that would normally require congressional appropriations. Treasury's Deputy General Counsel stated that Treasury generally has used compensating balances to pay banks to collect funds on checks deposited by federal agencies, to provide operating cash, and to pay for other services performed. Other financial services have included financing "float" charges on funds transferred to Treasury before deposited checks are cleared through the banks on which the checks are drawn. Recently, with increased lockbox activities as well as the revised TGA system, the list of services being paid by compensating balances is growing, such as the following examples:

- --Lockbox banks can perform data processing services for an agency by summarizing data so the agency can update its accounting records. In one such arrangement, this function was performed by the agency and financed through appropriations prior to adopting lockbox services. The value of this service was estimated by the agency to be $166,000.

- --The new TGA system includes such services as design, development, training, and testing ($262,000); consulting and professional services ($40 to $100 per hour); and data processing equipment services. Prices for the latter were not listed in the contract between FMS and the prime contractor bank.

Financing such expenses through compensating balances removes the costs from the normal review and analysis given to items in agencies' budgets.

Inadequate monitoring of bank charges and compensation

FMS has had difficulty ensuring the compensating balances are no larger than necessary to reimburse the banks for the services provided. The 1982 IG's report on TGAs found FMS did not effectively evaluate compensating balances partially because the necessary bank information was not requested or requested and not received, and there was a lack of written procedures for evaluating compensating balances. In commenting on the IG report, FMS agreed that procedures for monitoring compensating balances were not documented. In 1983, FMS drafted procedures that, according to its officials, will be finalized when the revised TGA system is implemented. In addition, FMS plans to automate the review of reported bank charges and compensation.

We reviewed the quarterly account analysis (invoices) of 10 TGA banks with large compensating balances--banks not covered in the IG's review. From June 30, 1981, through June 30, 1983, analyses of bank reports showed that 7 of the 10 banks were underpaid by a total of about $762,000, and 3 were overpaid by about $171,000. Apparently, two of the latter banks had been underpaid in previous periods, and the compensating balances had in part been maintained at a higher level to liquidate those losses.

Even though guidelines are now written, they were not uniformly applied during FMS reviews of compensating balances. Therefore, there is still no assurance that banks are paid accurately. For example, 4 of the 10 banks in our sample reported cumulative losses totaling $735,000. According to bank reports, the major expense that caused these losses was the "float" absorbed by them on checks credited to Treasury before clearing the banks on which they were drawn. In other words, Treasury pays the bank to make funds available before the bank itself can "cash" the checks. Float expenses charged by these four banks accounted for $600,000 or 82 percent of the total reported losses. Although FMS procedures require its analysts to verify these charges, we found that only one bank's reported float expense was reviewed. In that case it appeared that the charge was overstated. However, FMS could not verify the float charge, partially because of improper bank reporting.

Agency comments and our evaluation

Treasury commented that the use of compensating balances is a widely accepted method for procuring banking services, and has enabled the federal government to acquire new banking services quickly with significant savings to the taxpayer. Treasury also stated a willingness to report to the Congress on services obtained in this way if such information would be useful. As we stated previously, we believe that disclosure of these costs is not only useful but essential.

As for ensuring that overall costs to the government are minimized, Treasury reports having (1) expanded the program whereby high dollar volume accounts and special services, such as cash concentration, are competitively bid, and (2) attached major emphasis to lockbox conversions. While lockboxes offer the potential for accelerating funds to the government, Treasury should proceed with caution and implement the necessary monitoring procedures to ensure funds are not delayed, as stated previously.

CONCLUSIONS

FMS should continue to improve control over agencies' collections flowing through commercial banks in the TGA, TFCS, and lockbox systems. The revised TGA system has the potential for accelerating funds to Treasury, but must be properly controlled to prevent, detect, and deter bank delays in transferring funds. The FMS reliance on the banks to transfer the funds when deposited by the agencies will not ensure that bank delays are prevented. Detecting delays will depend primarily on the agencies, but the effectiveness of this approach is not yet known because it has not been implemented. Given our past observations that some agencies have not placed a high priority on reconciling deposit information, we are concerned over how well the planned approach will work. Therefore, we believe it would be useful for Treasury to examine alternative control mechanisms that would provide the ability to prevent, as well as detect, fund transfer delays. Furthermore, FRB operation of the TGA system offers the potential of greater control at less overall cost and should be evaluated. To allow the agencies to assist in identifying delays, we support the FMS efforts to provide them with complete information on deposit dates and amounts and inform the agencies of their responsibilities for finding and reporting bank delays. As a deterrent, it is also essential that FMS consistently charge banks, where warranted, for delaying funds.

FMS also should continue its efforts to implement procedures for internal use and for agencies to monitor TFCS and lockbox collections for delays. Because both mechanisms receive payments directly from the public, and banks determine when funds are transferred, there is a risk of delays. Therefore, FMS needs to implement procedures to ensure the promptness and completeness of deposits. Such procedures should focus on verification techniques for confirming deposits, effectiveness of bank internal processing, and agency controls for monitoring funds flow. Not only will these controls ensure that TFCS and lockbox collections are meeting their objectives, but they also will make agencies more aware of the reliance FMS is placing on them to provide comprehensive coverage to detect delays. To further improve control over TFCS collections, FMS also should isolate the cause of deposits being rejected at the FRBs for apparent coding errors, and determine whether accepting the funds pending corrective action would be cost-effective.

FMS also needs to consistently follow its own procedures for evaluating bank charges and compensation to minimize overall government costs. Those costs also need to be more clearly disclosed and controlled. The costs are paid by the use of compensating balances provided to the banks and are not provided for in the FMS appropriation. Consequently, they are not subject to congressional oversight through the appropriations process and the incentive for minimizing costs is reduced.

The Treasury's comments on this report indicate that many of our concerns are being addressed in various Treasury initiatives. It is essential that Treasury continue these efforts and maintain a proper level of control over the various collection systems.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury take the following actions:

--Examine alternative controls for preventing and detecting bank delays in transferring agencies' deposits. These alternatives should include requiring agencies, rather than commercial banks, to initiate ACH funds transfers from the TGA banks to Treasury's Federal Reserve account. This could potentially eliminate delays caused by banks.

--Advise federal agencies of their responsibilities for detecting bank delays.

--Evaluate whether Federal Reserve operation of the revised TGA system would produce greater control at less overall cost to the government.

--Charge all banks delaying funds transfers.

--Establish control standards for monitoring lockbox collections that must be implemented by all agencies using those systems.

--Determine whether it would be cost-effective to revise current procedures to allow the Federal Reserve to accept all funds received through TFCS even though agency identification data may be inaccurate.

--Include costs of compensating banks for banking services in the Department's annual appropriation request.

--Consistently monitor bank charges and compensation to ensure that the overall costs to the government are minimized.

COMPARISON OF SELECTED COSTS OF FRB OPERATION

OF A TGA SYSTEM VS. THE REVISED TGA SYSTEM

The revised TGA system, operated by commercial concentrator banks, is expected to cost $1.4 million in its first full year of operation. When it became apparent that FRB operation of the system with ACH funds transfers being initiated by the agencies could provide greater control, we attempted to determine the cost of that alternative. Although complete data was not available for all cost elements, we developed the following partial comparison:

Cost elements	Estimated costs: FRB operation of TGA system	Estimated costs: Revised TGA system
Data collection:		
Agency calls on deposits to data service facility	$363,000	-0-
Bank calls to data service facility	-0-	$846,000
FRB costs to accumulate accounting data	124,000	-0-
Funds processing:		
ACH transactions	6,000	29,000[3]
Electronic funds transfer	Not applicable (See below)	346,000

For all the costs under the revised system, we used the prime contractor's projected 1985 charges. For the FRB alternative, we used cost data from various sources, which are described in the following sections.

Data collection costs

Under the revised system, the banks receiving the agencies' deposits will call in all information needed to effect the transfer of funds to Treasury's Federal Reserve account and provide necessary accounting data. With the Federal Reserve alternative, the agencies would call in only the funds transfer information and the accounting data would be accumulated by the FRBs from the deposit tickets. Although the Federal Reserve would incur additional costs in that process, overall data collection costs may be reduced. Based on information available at FMS, we estimated the

[3]Treasury estimate. Current charges would be comparable to the FRB option.

Federal Reserve could incur additional costs of about $124,000 to process about 750,000 TGA documents annually. This estimate corresponds to FMS costs for processing the documents under the old TGA system.

To compute the cost of the agencies' calls, we used FMS estimates of 2,500 depositing units and 250 annual business days, and the Postal Service's cost per call of $0.58. The latter was used because the Postal Service depositing units call in similar amounts of data.

Funds processing costs

In the revised system, the TGA banks must consolidate daily deposit information and report that information to the data service facility. If a bank does not meet the data service facility deadline for preparing fund transfers through the normal ACH operations, the concentrator banks will advise the reporting bank to transfer Treasury's funds electronically. FMS estimated that, because of the time needed to consolidate daily deposit information, some banks, primarily in the West, would be unable to meet the 8 p.m. eastern time deadline for ACH transactions. Therefore, FMS included $346,000 for the cost of electronic fund transfers in the revised system. These costs could potentially be avoided, or significantly reduced, if the agencies initiated the fund transfers to the Federal Reserve.

Unlike the TGA banks, the individual agency depositing units would not require time to consolidate deposit data from several sources before calling the data service firm. Each agency office would simply be required to make its daily deposit by the end of the local banking day, typically 3 p.m. Even if the deposit is made in the West, it would only be 6 p.m. eastern time, thereby leaving 2 hours in which to call the data service firm and forego any additional electronic fund transfer costs.

The $6,000 in ACH costs under FRB operation of the system were computed assuming that each of the approximate 500 TGA banks receive deposits on each of the 250 annual business days. Current ACH charges were based on the fee schedule in effect on July 1, 1984.

Potential savings

Our analysis indicated possible savings in the key areas of data collection ($359,000) and funds processing ($346,000). However, it should be recognized that our analysis was limited and, in studying the matter, it is possible that other costs or logistical problems could surface that would offset some of the possible savings. For example, the revised TGA system development costs were about $276,000. Similar costs to implement the Federal Reserve alternative, such as any design efforts or equipment acquisitions, would need to be determined. We cannot estimate those costs, which would necessarily be developed jointly by Treasury and the FRBs. Nonetheless, the comparative cost data is presented to show the need to examine that alternative more closely.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to evaluate: the controls for preventing and detecting bank delays in the collection mechanisms; whether planned changes in the TGA system will effectively solve reported deficiencies; and the procedures for establishing and controlling banking arrangements. To attain this objective we

--examined policies, procedures, and guidelines established by FMS for approving and reviewing banking arrangements;

--discussed authorization and monitoring policies and procedures with responsible FMS officials;

--analyzed plans, studies, previous internal and external audits and management reviews, and other documents relating to collection system operations;

--evaluated and discussed with FMS, contractor, and Federal Reserve officials changes to the TGA system. We also interviewed private sector, Postal Service, and Farmers Home Administration officials who operate collection systems similar to the revised TGA system; and

--followed up on findings of collection system weaknesses reported by the Treasury's IG.

Our review was conducted in accordance with generally accepted government audit standards. We performed our work, concluded in December 1983, at FMS headquarters, Department of the Treasury; the Board of Governors of the Federal Reserve System; Postal Service headquarters; and the Farmers Home Administration, Department of Agriculture. We also contacted officials at FRBs in Pittsburgh and Cleveland who are knowledgeable of Treasury/Federal Reserve fiscal agency operations, and visited other officials at the FRBs of Chicago, New York, Philadelphia, Richmond, and San Francisco. We judgmentally selected these five locations based on their geographic dispersion and involvement in handling government collections.

Because of the previous work done by Treasury's IG and the planned changes to the TGA system, we did not perform any random sampling to project the magnitude of the interest lost from bank delays. Instead, we followed up on all delays identified by the IG to assess the FMS actions on individual cases of delayed deposits and to determine whether the causes of delays were being addressed. We also discussed their findings with the Office of Inspector General staff and reviewed their documentation and computation of the bank delays.

To determine if banks were being overpaid or underpaid, we reviewed quarterly income and expense statements of 10 TGA banks for the period June 30, 1981, through June 30, 1983. We selected the banks with the large compensating balances not included in the IG's sample.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FISCAL ASSISTANT SECRETARY

DEC 11 1984

Dear Mr. Anderson:

Enclosed herewith are the Treasury Department's management responses to recommendations contained in the Draft of a Proposed Report to the Secretary of the Treasury entitled, "Improvements Needed in Controlling and Accounting for Banking Arrangements." One point that I believe is important to note is that the modernized TGA system which is the subject of your review is a significant improvement over the previous system. The modernized system should be recognized as an important step forward in the Government's cash management program.

However, the Treasury believes the auditors provided some valuable insight, and we plan to take their comments into consideration as we continue to improve our financial systems. Since the audit was completed in December 1983, there have been several enhancements and improvements that have addressed many of the comments made in the body of the report.

If you or your staff require additional information, or have any questions, please contact Virginia Harter, Director, Funds Flow Division, Financial Management Service.

Sincerely,

Carole Jones Dineen

Mr. William J. Anderson
Director, General Government Division
U.S. General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Enclosure

GAO RECOMMENDATION

-- "Consider requiring agencies to initiate ACH funds transfers from the TGA banks to Treasury's Federal Reserve Account, instead of the revised system where banks initiate the transfer. This should eliminate delays caused by banks." 1/

MANAGEMENT RESPONSE

TGA deposits are received from over 3,000 agency field offices. Unlike the Postal Service and the Farmers Home Administration, we believe it would be difficult, if not impossible, to exercise effective control over the various department and agency field offices necessary to ensure accurate reporting of deposit information. We also believe that the efficiencies of utilizing 550 banking locations versus 3,000 agency reporting locations outweigh the anticipated benefits of individual agency field reporting.

Postal Service and Farmers Home Administration accounts are eligible to receive deposits only from their respective individual offices. A TGA can accept deposits from any government officer designated by Treasury to do so. Multiple depositors with the ability to initiate transactions within a single operating account (TGA) would cause a substantial burden on the bank from a reconcilement perspective and would quite likely result in a negative reaction from those banks maintaining a TGA. This approach would also add substantially to Treasury's recurring cost due to past experience which has shown that agencies frequently do not present a balanced deposit to the TGA bank. As a result, the TGA bank would be required to initiate a substantial number of additional adjusting entries which would increase costs due to the potential of placing the TGA in an overdraft position.

The Financial Management Service believes that system enhancement and increased monitoring of detail deposit information will meet the control objectives achievable by direct agency input. If, subsequent to full system evaluation, the controls are not achieved, alternatives will be investigated to insure that proper controls exist.

GAO RECOMMENDATION

-- "Provide federal agencies with full information on all deposit dates and amounts reported through the banking system, and advise them of their responsibilities for detecting bank delays."

1/ The draft report did not document any specific deposit transactions which resulted in funds transfer delays caused by banks.

MANAGEMENT RESPONSE

Each Federal agency currently receives a Monthly Deposit Ticket/Debit Voucher Support Listing (Attachment to TFS Form 6652, Statement of Differences) from the Financial Management Service which specifies, among other information, an itemized detail listing of transactions, the voucher date, i.e., date on which agency presents deposit document to the TGA bank, and the dollar amount of each transaction as reported to Treasury by the bank. An agency can compare deposit documents in their possession to the information reflected in the listing to determine if a bank has mishandled any deposits. The Treasury believes the monitoring for the collection of public monies is a shared responsibility that all Federal agencies should participate in. A greater incentive can be implemented by ensuring that each agency's Inspector General include this type of monitoring as part of their regular audit routine.

Prior to full system implementation, scheduled for September 1985, Treasury will take appropriate action to coordinate the efforts of all Inspectors General and emphasize Federal agencies' responsibilities through the distribution of appropriate transmittals.

GAO RECOMMENDATION

-- "Evaluate whether Federal Reserve operation of the revised TGA system would produce greater control at less overall cost to the government."

MANAGEMENT RESPONSE

As stated in the appendix to the GAO report, all Federal Reserve districts had an opportunity to submit a proposal for providing this service to Treasury. At no time during the entire competition process did the Treasury receive any Federal Reserve inquiries or complaints stating that sufficient time to tender a proposal was not being made available. The existing contract with a commercial depositary will expire in 2 years. At such time, the Federal Reserve will have another opportunity to compete for providing these services.

It is interesting to note that the successful bidder included the Federal Reserve Bank (FRB) of Atlanta as a subcontractor in the TGA consortium. Apparently, the Atlanta FRB was aware of and involved from the beginning and was satisfied to be a participant in the system rather than the primary service provider.

GAO RECOMMENDATION

-- "Ensure that all banks delaying funds transfers are appropriately charged."

MANAGEMENT RESPONSE

An automated account analysis module (Phase III) is being designed and is scheduled for implementation in September 1985. This feature will automatically capture deposit and reporting dates and compute earnings to Treasury for all funds transfer delays. These earnings will be included in the banks' cumulative positions as income and will thereby reduce the amount of compensation due from Treasury. Treasury has also reserved the right to demand direct payment in those situations where appropriate.

GAO RECOMMENDATION

-- "Establish control standards for monitoring lockbox collections that must be implemented by all agencies using those systems."

MANAGEMENT RESPONSE

Guidelines for the monitoring of lockbox collections were prepared during Fiscal Year (FY) 1983 and a copy provided to the GAO audit group. Detailed operating procedures (i.e., for Treasury review and monitoring) are now under development (effort began October 1, 1984) and will be completed by April 1, 1985. Preparation of guidelines for agencies is also planned for FY 1985.

In response to more specific comments within the report concerning the need for review and monitoring procedures, funds transfers from lockbox banks are monitored daily to ensure that all due wires are received for each lockbox account. On a monthly basis, these amounts are reconciled to deposit reports (hard copy) provided by the lockbox depositaries. This reconciliation will occur on a daily basis with the implementation of an automated deposit reporting system during FY 1985. Implementation of such a reporting system will also avoid the occurrence of the specific 23-day delay cited--which we would like to point out is the only such instance observed in the entire 2½ years of Treasury's lockbox system (current volume: 94 account $8 billion annual systems flow).

In regard to agency monitoring and assurance of systems integrity, during FY 1984, BGFO implemented a User Agency Survey to assess the quality and effectiveness of each bank's lockbox process. We will perform this survey quarterly with selected accounts.

GAO RECOMMENDATION

-- "Revise current procedures to allow the Federal Reserve to accept all funds received through TFCS even though agency identification data may be inaccurate."

MANAGEMENT RESPONSE

The Financial Management Service operates an accounting system and a cash management program. We made a management decision to require entries through TFCS to be acceptable to the accounting system, i.e., to significantly reduce the number of incoming messages requiring manual intervention or correction by our staff. As part of our monitoring of this system, we initiated a periodic review of rejected messages which may result in delays in transferring funds into Treasury. Again, we still observe some delays in transfers due to these edits, however, at this time, we have not compared the cost of these delays to the efforts necessary to correct erroneous wires. Due to the significance and magnitude of our cash management and systems concerns, we have undertaken the following:

(1) A major TFCS design review during FY 1985 to schedule systems enhancements that will address users concerns, as well as existing formatting constraints. This effort will include examining this issue--specifically a method to make such corrections on-line rather than manually if the Fed edits were lifted.

(2) An assessment with the banking industry as to how to better communicate Treasury wire format requirements to commercial banks.

In addition, we would like to note that although by eliminating the Fed edits, some transfers would not be delayed, agencies may not invest these monies until identified to their trust or revolving funds.

GAO RECOMMENDATION

-- "Include costs of compensating banks for banking services in the Department's annual appropriation request."

MANAGEMENT RESPONSE

The use of compensating balances is a widely accepted method, inside and outside of government, for procuring banking services. In numerous statutes, Congress has given the Secretary of the Treasury broad discretion to deposit public money in financial institutions and to obtain banking related services from those institutions. The use of compensating balances has enabled the Federal Government to acquire new banking services quickly with significant savings to the taxpayer. Furthermore, cash management is an evolving field, with new services and systems constantly under development. We would certainly be willing to report to the Congress on services obtained in this way if such information would be useful.

GAO RECOMMENDATION

-- "Consistently monitor bank charges and compensation to ensure that the overall costs to the government are minimized."

MANAGEMENT RESPONSE

The automated account analysis module referred to earlier (Phase III) will generate account analyses for all TGA banks utilizing standard schedule charges recognized by Treasury, data generated from the daily deposit reports, and some month end activity supplied by the TGA banks. Additionally, it will project estimates of appropriate levels of compensation. To ensure that necessary action is taken in a timely manner, we have developed a review schedule that will be incorporated into Phase III and remain a resident of the data base for the system.

To ensure that overall costs to the government are minimized we have expanded the program whereby high dollar volume accounts and special services such as cash concentration are competitively bid as well as attached major emphasis to lockbox conversions.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

PRESTON MARTIN
VICE CHAIRMAN

December 13, 1984

Mr. William J. Anderson
Director
United States General
Accounting Office
General Government Division
Washington, D. C. 20548

Dear Mr. Anderson:

Thank you for giving us the opportunity to review your draft report entitled "Improvements Needed in Controlling and Accounting for Banking Arrangements."

As you are aware, the Federal Reserve is responsible for promoting an efficient payments mechanism nationwide. In this context, we have been providing payments services to the Treasury and we are prepared to work with the Treasury to consider more extensive utilization of the Federal Reserve Banks for the receipt of funds transfers initiated directly by government agencies, for operating and controlling the revised Treasury General Accounting system, and for accepting Treasury Financial Communication System funds accompanied by inaccurate data.

We have worked closely with the Treasury's Financial Management Service on numerous related initiatives and look forward to supporting its cash management program in the future.

Sincerely,

Preston Martin

Preston Martin

(905077)

30871

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