



093862

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

MAR 27 1973

GENERAL GOVERNMENT
DIVISION

Mr. Henry B. Turner
Acting Assistant Secretary
for Administration
Department of Commerce

Dear Mr. Turner

We have surveyed the investment practices of the Maritime Administration and the National Oceanic and Atmospheric Administration (NOAA), Department of Commerce, to ascertain whether monies in insurance fund accounts of these agencies were being invested to the maximum extent possible. Our survey was conducted at the headquarter offices of both agencies and considered Maritime's Federal Ship Financing Fund and War Risk Insurance Fund, and NOAA's Federal Ship Financing Fund for fishing vessels.

We believe that at the present time both agencies are making an effort to invest cash which is excess to the immediate operating needs of the funds. We noted, however, that prior to October 1972, none of NOAA's Federal Ship Financing Fund had been invested and that most of Maritime's investments are in low-yield short-term Treasury bills. The agencies' income from investments could be increased substantially by maximizing investments in higher yield long-term (over 1 year) Treasury notes and/or bonds. These matters are discussed further in the following paragraphs.

Opportunity To Improve Income
From Funds Investments

The Federal Ship Financing Fund and the War Risk Insurance Fund were established by the Maritime Administration to carry out the provisions of titles XI and XII respectively of the Merchant Marine Act, 1936, as amended. The Federal Ship Financing Fund is used by Maritime, in the event of a default by an insured ship owner, to make payment of any unpaid principal amount or unpaid interest due under an obligation guaranteed under title XI. The War Risk Insurance Fund was created for the purpose of repaying ship owners for loss or damage by war risks when regular marine insurance coverage cannot be reasonably obtained.

~~712957~~ 093862

The Federal Ship Financing Fund for fishing vessels administered by NOAA was created under title XI of the Merchant Marine Act, 1936, as amended, to insure loans and mortgages on fishing vessels owned by citizens of the United States.

The act provides that insurance premiums collected for all three funds may be invested in United States Government securities or other obligations guaranteed by the Government. This requirement that the investments be made in securities of or guaranteed by the United States Government is the only stated restriction.

As of June 30, 1972, cash and investment balances totalled about \$1.2 million and \$37.8 million respectively for the three funds. Of the total investment, \$35.3 million was in short-term Treasury bills, the remainder being in a long-term Treasury bond. The cash balance was decreased and the investment balance was increased in October 1972 when NOAA purchased a \$1 million Treasury bill.

A NOAA official informed us that no investments of any kind had been made from the insurance fund for fishing vessels prior to October 1972, because they were not aware that authority existed for such investments. The same official informed us that they plan at the present time to keep \$40,000 in the fund to meet operating requirements, and that future purchases would be confined to bills maturing within a one year period.

Traditionally it has been the Maritime Administration's practice to place their Federal Ship Financing Fund's investments in Treasury bills of short-term maturities. Although we were not able to establish definitive reasoning supporting this practice, it appears that the anticipation of cash needs to meet substantial claims against the fund was a principal factor.

Our analysis of variations in Maritime's Federal Ship Financing Fund's financial statements over the past 5 year period showed that claims against the fund have decreased from the prior 5 year period allowing a buildup of cash in excess to that needed for current operations. For example, the fund's investments have increased from \$3.7 million in fiscal year 1968 to about \$10 million in fiscal year 1972. Maritime officials expect that the fund's investments will reach between \$40 million and \$45 million in fiscal year 1973. We believe that most if not all of these monies could be invested in higher yield long-term Treasury notes and/or bonds without jeopardizing the ability of the fund to satisfy claims against it.

During fiscal year 1972 about \$33.2 million of the Federal Ship Financing Fund was invested in Treasury bills. If held to maturity, earnings on these investments will total about \$1.5 million. Our computations show that approximately one percent additional income could have been earned on the investments from Treasury notes either issued or available in the open market in 1972. Projecting this one percent differential across the short-term investments of the three funds surveyed results in estimated additional income of about \$350,000.

Maritime's Chief, Division of Accounts, informed us that they intend to start purchasing higher yield Treasury notes and/or bonds to obtain a greater investment return on the surplus cash in the insurance funds. He also stated the conversion would be made gradually as the Treasury bills mature and other cash is available.

Conclusion And Recommendation

We believe that the Maritime Administration and NOAA could earn additional income on investments of insurance funds' monies by maximizing investments in long-term Treasury notes and/or bonds.

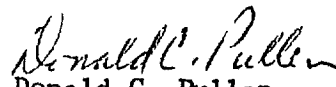
We therefore recommend that the Maritime Administration and NOAA be required to determine and implement the most effective and economical method of realizing a greater return on the funds' investments.

- - - -

We appreciate the cooperation extended to our representatives during the survey. We would appreciate receiving information on any action taken on the matters discussed in this letter.

Copies of this letter are being furnished to the Assistant Secretary for Maritime Affairs, the Administrator, National Oceanic and Atmospheric Administration, and the Director, Office of Audits, Department of Commerce.

Sincerely yours,


Donald C. Pullen
Assistant Director