UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

INTERNATIONAL DIVISION

OCT 1 3 1972

The Honorable Joseph F. Donelan, Jr.
Assistant Secretary, Bureau of Administration
Department of State

Dear Mr. Donelan:

Our recent review of disbursing and related activities of the Regional Finance and Data Processing Center at Paris, France, included consideration of the Center's cash management practices. We identified several opportunities for improvement.

A major possibility is described in the enclosure to this letter entitled Opportunity to Improve Management of Foreign Bank Accounts, Regional Finance and Data Processing Center, Paris, France, October 1972. The enclosure includes a proposal for continuously keeping the bank account balances of the United States Disbursing Officer (USDO) at minimum levels by purchasing the currencies needed to replenish the accounts at more frequent intervals and in amounts more closely related to immediate needs.

By applying the proposed method of managing the USDO's bank accounts, we have estimated that the average daily balances held by the banks during the first six months of calendar year 1971 could have been reduced by $10 million. A sustained reduction of this size would, by limiting the need for future Treasury borrowings, save about $540,000 a year in interest paid by the U.S. Government.

We therefore suggest that the Paris Center initiate a program of managing the USDO's bank accounts along the lines presented in the enclosed document. We suggest also that the Department consider adopting the proposed management techniques for use by all USDO's.

Another possibility for improving cash management practices is to reduce the cash holdings of cashiers. We plan to cover this matter in a separate report.

We identified also three more limited opportunities to improve cash management practices. These were specific cases calling for (1) the purchase of foreign currencies at more favorable rates from the American Express Company instead of commercial banks, (2) the maintenance of a German bank account in an American bank instead of a German bank, with the accompanying advantage of receiving a higher rate of interest from the American bank; and (3) the monitoring of interest computations by a London bank to ensure that the bank had paid the proper amount of interest on bank account balances. Responsible officials at the Center immediately initiated action on each of these.

We will appreciate receiving your views on the matters covered by this report, including advice of all action taken or contemplated as a result of our work. We are sending copies of this report to the Fiscal Assistant Secretary, Department of the Treasury, the Office of Management and Budget, and the Subcommittee on Foreign Operations and Government Information, House Committee on Government Operations.

Sincerely yours,

Frank M. Zappacosta
Assistant Director

Enclosure

OPPORTUNITY TO IMPROVE MANAGEMENT OF FOREIGN BANK ACCOUNTS

REGIONAL FINANCE AND DATA PROCESSING CENTER

PARIS, FRANCE

OCTOBER, 1972

The United States Disbursing Officer (USDO) at the Center maintains cash balances in numerous foreign bank accounts to permit disbursements in the currencies of about 80 countries. The USDO could delay the disbursement of U.S. Treasury funds, and thereby reduce the interest expense incurred by the U.S. Government, by continuously keeping those bank balances at minimum levels.

Based on an analysis of some of the USDO's foreign operating bank accounts, we estimate that the average daily balances held by the banks in all such accounts during the first 6 months of calendar year 1971 had a value of $14 million, and that these balances could have been safely reduced to $4 million--a sustained reduction of $10 million during the entire period. The reduction could have been accomplished by purchasing the currencies needed to replenish the accounts at more frequent intervals and in amounts more closely related to immediate needs.

Description of existing conditions

BEST DOCUMENT AVAILABLE

The USDO disburses about $200 million a year in U.S. Treasury funds to purchase the currencies needed to replenish his bank accounts. At the time of our review, the general intent was to purchase the currencies in regular increments at a rate of twice a month for major accounts and once a month for small accounts, but the intended purchasing schedule has not always been followed because the requirements for purchased currency have fluctuated. The USDO has been unable, however, to closely match his purchases with his requirements, and as a result, the purchased currency has tended to cause his bank account balances to remain at unnecessarily high levels for extended periods and to only occasionally dip to levels requiring immediate purchases.

Officials at the Center knew at the time of our review that unnecessarily large amounts of cash were being held by the banks. In 1971, the Center planned to conduct during calendar year 1972 a pre-analysis study of cash flows to determine the practicality of applying computer techniques to the overall management of funds. Initiation of the proposed project, however, was made contingent upon other work priorities and the availability of manpower. We noted that the project had not yet been initiated at the close of fiscal year 1972.

Proposed method of achieving improvement

We found that it was possible to identify information in monthly bank statements which could be used to achieve immediate improvement in the management of bank account balances. Each account that we examined for this purpose produced the following information:

1. Most of the fluctuation in an account's requirements for purchased currency was caused by relatively few foreign currency checks issued by the USDO for unusually large amounts (including blocks of payroll checks), and by relatively few large deposits of foreign currency collected by agencies serviced by the Center.

2. The bulk of the USDO's foreign currency checks cashed by each bank, i.e., all checks other than the unusually large checks or blocks of checks referred to above, could be classified as routine checks in that their monetary total each week did not vary significantly from the average of all their weekly totals.

We determined from the above analysis that, as long as an account continued to be used as it had been used in the past, the USDO could improve his account management techniques in three ways. First, the USDO could simplify much of his currency purchasing for an account by scheduling repetitive weekly purchases in a standard amount approximately equal to the average weekly total of the routine checks cashed by the bank. Second, the USDO could limit the average daily balance in the account to an amount sifficiently high to cover historical variations in the weekly totals of routine checks cashed by the bank. Third, the USDO could restrict his attention primarily to the few additional purchases needed to cover unusually large checks or blocks of checks as they are expected to be presented to the bank for payment and to the few cancellations or reductions of planned purchases that would be possible after each large collection is deposited.

We believe that the USDO could effectively manage his bank accounts on this basis with the establishment of relatively simple controls to ensure that the desired results were being achieved. The controls should include a provision for regularly monitoring monthly bank statements to permit occasional adjustments to planned purchases whenever the average daily balance in an account begins to deviate from the desired level. Another control could be a provision to constantly accumulate statistics on the routine checks issued by the USDO from each account to permit quick identification of major changes in the use of the account.

The pertinent data that we developed by examining the records of selected accounts for the first 6 months of calendar year 1971, together with our resulting estimate that a reduction of $10 million could have been accomplished during that period, are summarized in the following schedule:

| | Number of Large Transaction Days | | Approximate Dollar Values of the Currencies | | | |
| | Checks | Deposits | Weekly Standard | Average Daily Balances | | |
				Actual	Needed	Excess
Selected accounts:						
Paris, France	12	8	$200,000	$530,000	$200,000	$350,000
Madrid, Spain	7	3	45,000	540,000	75,000	465,000
Helsinki, Finland	2	6	25,000	145,000	25,000	120,000
Pretoria, S.A.	6	-	50,000	245,000	100,000	145,000
Pretoria payroll	-	-	8,000	20,000	5,000	15,000
Blantyre, Malawi	-	2	9,000	45,000	10,000	35,000
Totals, selected accounts			$337,000	$1,545,000	$415,000	$1,130,000
*Totals, all accounts (in millions)			$3.1	$14.2	$3.8	$10.4

The above summary shows that each of the accounts selected for review had an average daily balance in excess of the amount that would have been needed if the account had been replenished more frequently and in amounts more closely related to immediate needs. The average daily balance of French francs in the account at Paris, France, for example, had a value of about $350,000 during the 6 month period, whereas only about $200,000 would have been needed. To keep the average daily balance at about $200,000, the USDO would have been required to make a standard purchase of $200,000 each week plus an additional purchase on each of the 12 days that unusually large checks or blocks of checks were presented to the bank for payment, adjusted only as the 8 large collections were deposited and as the daily balances tended to deviate from the desired level.

It should be noted that the data that we identified for the accounts shown above could have been improved with a more precise review of disbursing transactions in each account. The effect of a higher degree of precision would be an increased number of large transactions requiring special purchases and an accompanying reduction of the standard amount to be purchased each week. We believe that a higher degree of precision is warranted because a reduction of the standard weekly purchase amount should further reduce the average daily balance needed to be retained in the account.

Illustration of proposed method

For illustration purposes, we reconstructed the daily balances that would have been in the Paris account during the 6-month period if the account had been replenished on the proposed basis. A summary of

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*The totals for all accounts are projections of the totals for the selected accounts based on foreign currency purchases during the period (The currency purchased for the selected accounts equaled almost 11 percent of the currency purchased for all accounts).

pertinent facts applicable to the reconstruction during the 25 full
weeks in the period appears on page 6. The adjusted currency purchases
required for the reconstructed account are described below:

1. The reconstructed account required 26 separate purchases
   during the 25-week period, which compares with 16 actual
   purchases. These adjusted purchases were always more
   closely related to immediate currency needs, but they
   were sufficient to maintain a balance in the account at
   all times.

2. Of the 26 adjusted purchases, 15 were accomplished on a
   regular weekly purchasing day in the standard amount of
   $200,000 each, leaving only 11 special purchases. The 11
   purchases consisted of 9 on days when abnormally large
   checks or blocks of checks were cashed by the bank and 2
   on regular purchasing days during weeks when partially
   offsetting collections permitted purchases in amounts
   less than the standard amount. To avoid the need for
   exact computations, each of the 11 special purchases
   were for $100,000 or a multiple of $100,000.

3. In addition to the 11 special purchases referred to above,
   11 cancellations of purchases were required. Eight of the
   cancellations applied to regularly scheduled weekly purchases
   whereas the remaining 3 applied to purchases that otherwise
   would have been made to cover unusually large checks. All
   but two of the cancellations were made possible by large
   collections that had been deposited in the account, i.e.,
   collections having a value of about $100,000 or more.

4. The two cancellations not attributable to collections were
   accomplished to adjust the balance in the account to an
   amount closer to the desired level. One was the cancellation
   during the first week of the period of a regularly scheduled
   purchase that was not needed because the actual balance
   carried over from 1970 was excessive. The other was the
   cancellation during the first complete week in April of the
   remaining part of a regularly scheduled purchase that had
   been reduced because of deposited collections. The reason
   for the cancellation was that the adjusted balance had been
   holding at a slightly excessive level throughout much of March.

Thus, the reconstructed account at Paris was manageable without
constant attention. The 12 days when unusually large checks or blocks
of checks were cashed and the 8 days when large deposits of collected
currency were made were the principal times requiring consideration to
ensure that special purchases were made when they were needed and

regularly scheduled weekly purchases were reduced or cancelled when they were not needed. Beyond this, management of the reconstructed account only required monitoring the bank's reported balances to ensure that the desired results were being achieved.

REDUCING CASH IN PARIS BANK ACCOUNT
THROUGH BETTER TIMING OF CURRENCY PURCHASES

(Amounts stated in French Francs)

Week Ending	Checks Paid (1)	Collections Deposited	Currency Purchases Actual	Currency Purchases Adjusted	Ending Bank Balances Actual	Ending Bank Balances Adjusted
*1-08-71	3,452,557	-	3,312,300	2,208,200	2,169,214	1,065,114
1-15-71	1,024,210	-	1,655,610	1,104,100	2,800,614	1,145,004
1-22-71	1,770,285	-	-	1,104,100	1,030,329	478,819
1-29-71	602,253	-	4,411,400	1,104,100	4,839,476	980,666
*2-05-71	2,168,500	918,942	2,739,000	1,102,600	6,348,918	833,706
2-12-71	1,214,516	-	1,655,775	1,102,600	6,790,177	721,792
*2-19-71	4,603,623	-	-	4,410,400	2,186,554	528,369
*2-26-71	3,486,801	901,786	3,861,200	3,307,800	3,462,739	1,251,354
*3-05-71	3,811,137	3,136,775	2,205,660	1,654,200	4,993,977	2,231,192
3-12-71	856,013	13,700	-	-	4,151,664	1,388,879
3-19-71	1,184,910	-	-	1,102,800	2,966,754	1,306,769
3-26-71	1,052,573	-	-	1,102,800	1,914,161	1,356,996
4-02-71	1,230,001	777,959	-	551,375	1,462,139	1,456,329
4-09-71	1,140,265	716,690	1,654,125	-	2,692,689	1,032,754
4-16-71	1,317,141	-	-	1,102,750	1,375,548	818,363
4-23-71	900,821	-	1,378,875	1,102,750	1,853,602	1,020,292
*4-30-71	2,357,137	440,234	1,103,000	1,654,125	1,039,719	757,534
5-07-71	1,079,657	-	1,653,900	1,102,600	1,613,962	780,477
*5-14-71	3,017,084	-	4,419,750	2,756,500	3,016,628	519,893
5-21-71	662,157	-	1,639,975	1,102,600	4,014,446	960,326
*5-28-71	4,802,765	901,357	1,636,975	3,859,100	1,769,993	918,008
6-04-71	1,294,744	6	2,214,400	1,107,200	2,689,655	730,470
*6-11-71	1,705,989	3,372,333	-	-	4,356,005	2,396,820
6-18-71	1,401,052	-	-	-	2,954,953	995,769
6-25-71	1,441,598	2,887	-	1,107,200	1,516,242	664,237

(2) Total currency purchases — Actual: 35,601,885 — Adjusted: 34,749,900

(3) Average daily balances (full 6 months) — Actual: 3,045,781 — Adjusted: 1,190,458

*(1) The 12 days when unusually large checks or blocks of
checks were presented to the bank for payment are included
in the weeks marked with an asterisk.

(2) The total actual currency purchases cost $6,430,000, whereas the total adjusted
currency purchases would have cost $6,300,000. The exchange rates applied to the
adjusted currency purchases were, for each month's purchases, the rate applicable
to the first actual purchase during the month.

(3) The dollar values of the actual and adjusted average daily balances were about
$552,000 and $205,000, respectively.

Related considerations

An additional consideration was involved in the Spanish peseta account at Madrid where the USDO retained in the account for long periods large amounts of collected currency, only occasionally removing part of it. In a case such as the Madrid account, maintaining minimum balances requires the immediate removal of unneeded collected currency, preferably by sale but also by deposit to an interest-bearing account, followed by the subsequent acquisition of currency as it is needed. This would permit management of the account to be the same as management of accounts in which collections are not a predominant factor.

We recognize that the proposed management techniques would require some modification of purchasing procedures because purchases are sometimes negotiated for the USDO by U.S. Embassy officials in the countries where the accounts are located. We believe that in such cases the use of prepositioned checks for standard weekly purchases and the issuance of guidelines on properly taking collections into account would provide the flexibility needed to continuously keep the account balances at minimum levels.

Officials at the Center have expressed the view that more frequent purchasing of currencies would require an increased number of purchasing personnel at the Center. We believe that an increased number of purchasing personnel, if needed, would be justified by the monetary benefit resulting from reduced bank balances. A sustained reduction of $10 million, for example, represents an interest savings of about $540,000 a year based on the interest rate paid by the Treasury for borrowed funds during 1971. An increased number of purchasing personnel might not be needed, however, because the proposed techniques also incorporate a simplification of the Center's current purchasing operation.

Conclusions

We have concluded that the Paris Center should initiate a program of managing the USDO's foreign bank accounts along the lines discussed above. After the Center has initially identified the needed data for each account, we believe that provision should be made for systematically evaluating the results achieved and for implementing any further refinements that are found to be practical. Future refinements might include the use of computer techniques, but until such techniques can be satisfactorily devised, we believe that maximum use should be made of methods currently available.