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THE WHITE HOUSE

WASHINGTON

June 26, 1980

C

MEMORANDUM FOR THE PRESIDENT

FROM: RICK HUTCHESON R.H.

SUBJECT: MEMOS NOT SUBMITTED

1. SECRETARY MUSKIE forwarded for your information an interagency task force report concerning U.S. policy on the protection of the world's tropical forests. NSC advises that no decision is required, and recommends that you not read the memo at this time.

2. DAVID AARON forwarded comments from Secretary Brown on a press release from Governor Matheson opposing the MPS basing mode for the MX. Forwarded to Gene Eidenberg.

3. JIM MCINTYRE sent you an information copy of his memo to heads of departments and agencies on controlling end-year buying.

4. JIM MCINTYRE sent you the report of the Federal Cash Management Project. "The more than 80 improvements that resulted from (the project) will save the government over $450 million in annual interest costs ... The Project also developed the cash management tax initiatives that will yield annual interest savings of more than $695 million when fully implemented. These proposals, which were included in your FY 80 and FY 81 budgets, will also provide a one-time acceleration in budget receipts of $12.9 billion over the next three fiscal years ..."

5. CAB DECISONS. Dockets 35385, 35416, 33719 either issue or transfer foreign air carrier permits for various airlines. Cutler and all agencies concur.

3762

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

Summary

MEMORANDUM FOR: THE PRESIDENT

FROM: DAVID AARON

SUBJECT: Task Force Report on U.S. Tropical Forest Policy

Attached for your information is a memorandum from Secretary Muskie forwarding the report of an interagency task force concerning U.S. policy on the protection of the world's tropical forests.

No decisions are required at this time. A decision memorandum on specific follow-up steps to the task force report will be forwarded in the near future.

I do not recommend that you read it until the more substantive memorandum arrives here.

S/S 8013568

THE SECRETARY OF STATE
WASHINGTON

June 18, 1980

UNCLASSIFIED

MEMORANDUM FOR: The President

From: Edmund S. Muskie ESM

Subject: Transmittal of U.S. Tropical Forest Policy Report

In your Environmental Message last August you highlighted the rapid disappearance of the world's tropical forests as a major global environmental problem. To help mobilize a broad-based domestic and international response, you called for a report by a Federal Interagency Task Force on "specific goals, strategies and programs the United States should undertake" to promote the protection and wise management of the world's forests.

I am pleased to transmit the Task Force report: The World's Tropical Forests: A Policy, Strategy, and Program for the United States. It was prepared by an interagency body comprised of representatives of 15 Federal departments, agencies and councils, and co-chaired by the Department of State and the U.S. Forest Service. It has been formally cleared by all U.S. agencies concerned. The study was carried out in close cooperation with a large non-governmental working group representing environmental and university interests, and also with industry's National Forest Products Association.

The Task Force concluded that the world community is indeed confronted by serious problems and risks arising from the rapid, unchecked destruction and degradation of tropical forests. Its report describes the immense value of this important resource to mankind; and stresses the vital stake the United States has in tropical forest protection and improved management, this despite the fact that we possess less than 1 percent of the world's total acreage. The report includes: (1) a general statement of policy to articulate this Nation's commitment to improve tropical

UNCLASSIFIED

forest management; (2) a set of goals for the United States and other nations to pursue in the near, medium and long term; (3) a series of broad domestic and international strategies for the U.S. public and private sectors to follow; and, (4) a program framework to guide United States institutions in planning and focusing their tropical forest activities.

Your Environmental Message also called upon the State Department to work closely with the Department of Agriculture, the Council on Environmental Quality and other Federal agencies to promote a coordinated international attack on tropical deforestation. As the direct result of a U.S. initiative, the United Nations convened a meeting of international experts in Nairobi last March where agreement was reached on the first steps toward an integrated global action program on tropical forest management. It is particularly noteworthy that the international experts strongly endorsed the statement of goals presented in the Task Force report, which we described in Nairobi to help shape the discussions and recommendations.

In a variety of recent international meetings we have observed a rapid emergence of worldwide concern about the tropical forest loss problem, and a strong desire by governments to find solutions. As emphasized by the Task Force, continued strong U.S. leadership at this point is critical if the international community is to mount an effective response.

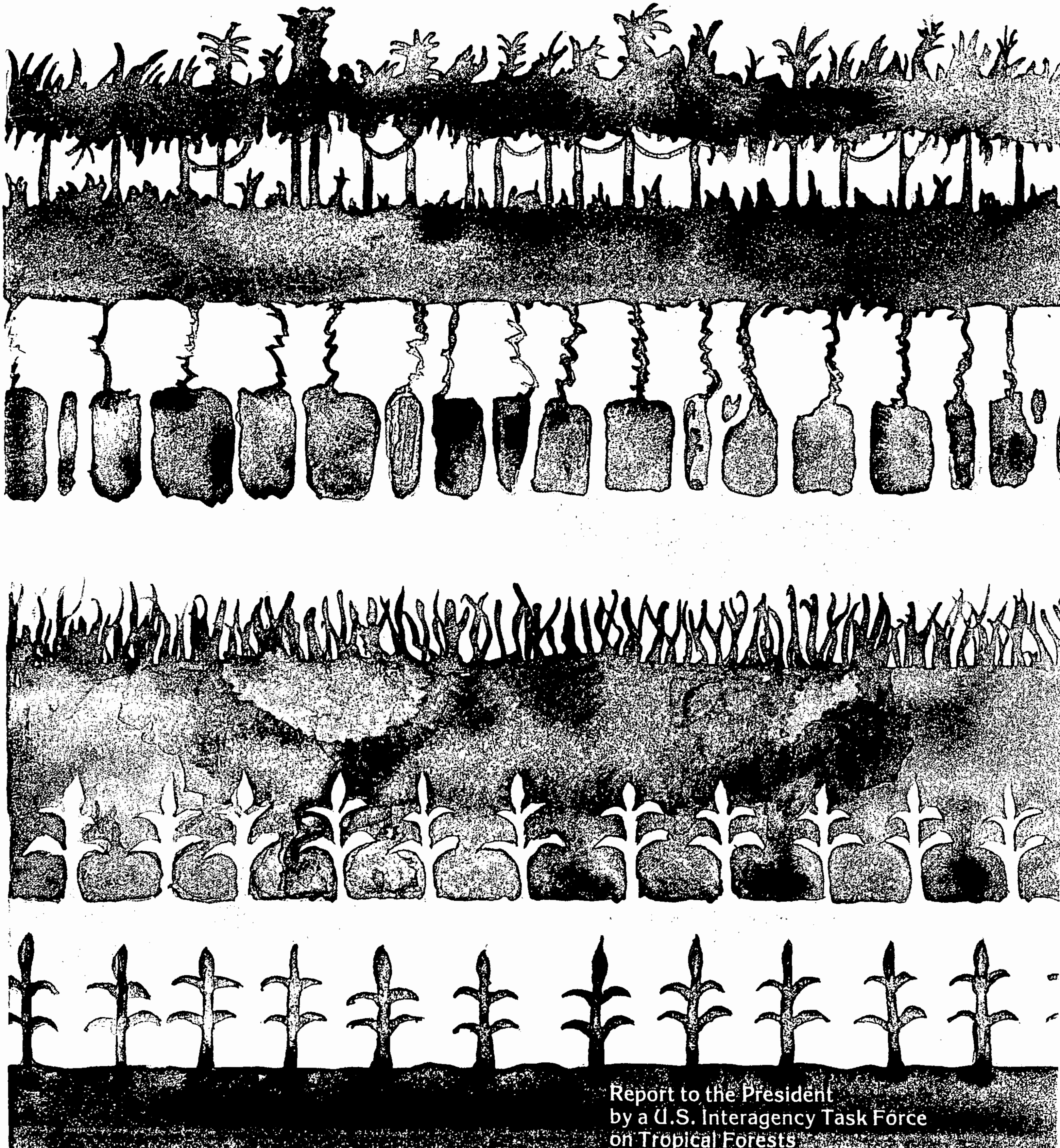
The Task Force was encouraged by the number of U.S. public and private institutions that have begun to implement new tropical forests policies and activities. If these efforts can be strengthened, consolidated, and carried out within the framework of the unifying policy and strategy proposed in the report, then the U.S. will be in a strong position to help stimulate and assist the community of nations to protect and rationally utilize this vital but undervalued resource.

You will soon be receiving from me a Decision Memorandum on follow-up by the Administration to the Task Force report.

Attachment:
Interagency Task Force Report on Tropical Forests

The World's Tropical Forests:

A Policy, Strategy, and Program for the United States



Report to the President
by a U.S. Interagency Task Force
on Tropical Forests

THE WHITE HOUSE
WASHINGTON

cc Eidenberg ✓ done

Then for summary

MEMORANDUM

3778

THE WHITE HOUSE

WASHINGTON

INFORMATION

June 24, 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: DAVID AARON

SUBJECT: Governor Matheson's Press Release on MX

Harold Brown has sent you a memo summarizing and critiquing a recent press release in which Governor Matheson declares himself against the horizontal MPS basing mode for MX. Harold's memo is pretty much on the mark -- though I would add the following points:

-- Matheson's position has been publicly known for some time -- his press release is unlikely to be played up as big news.

-- Van Cleave's vertical silo proposal has no dash posture to guard against schemes for determining which shelters have missiles.

-- Matheson's second proposal involves hardening and defending our current silos. However, effective ABM protection is prohibitively expensive unless the Soviets must attack many more aimpoints than we must defend. It would require abrogating the ABM treaty and unleash an offensive and defensive arms race.

-- Deploying MX on submarines means putting all our survivable missiles at sea -- an ASW breakthrough could make all our missiles vulnerable. Harold says this -- but "Triad" is a codeword for a consideration we must explain more directly.

3778

NSC/S
Staff. please

THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

17 JUN 1980

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Governor Matheson's Press Release on M-X

On 16 June Governor Scott Matheson of Utah issued a press release (attached) concluding with the statement, "I must declare that I cannot support deploying the M-X missile system in the proposed horizontal multiple protective structures". His major points, and my comments, may be summarized as follows:

-- The DoD and the Air Force have not been open and timely in dealing with the public. (We have given them all the information we had as soon as practical after we had it. I informed you recently of our very intensive public relations campaign.)

-- We have been slow in setting up impact aid and have ignored lessons from Trident. (We have specifically examined Trident experience; the only "impact aid" we have provided to date is planning money for Nevada and Utah.)

-- A new missile system is needed because of impending Minuteman vulnerability. (Agree.)

-- IOC of 1986 and FOC of 1989 are not timely. (I disagree. Sooner would be better, but the programmed strength of the other legs of the Triad give us time in the 1980's to do the job right.)

-- The dates will probably slip because of litigation and the land withdrawal process. (Self-fulfilling prophecy.)

-- Strongly impressed by proposal by Professor William Van Cleave of University of Southern California. Would build "hundreds" of vertical shelters in present Minuteman areas, canisterize Minuteman III, and have an MPS system. New M-X missile would be added when available. (I am disturbed by Governor Matheson giving rave reviews to a major defense advisor to Governor Reagan. This concept has been studied for years and we see no advantage. Winter weather in existing Minuteman areas would inhibit both construction and operation of MPS. Thousands of shelters would be needed, not hundreds. Productive farmland and homes would need to be taken, leading to an even more complex and lengthy environmental review. Far from saving time to deployment, I believe this proposal would take longer to implement than our planned M-X system.)

-- Favors pursuing ballistic missile defense of fixed silos. (BMD is a high technology, high risk approach; we have no confidence that it can successfully defend Minuteman fields. Additionally, it would require abrogation of the ABM treaty to defend meaningful numbers of silos.)

-- Would accept some new silos on military land in Utah.

-- Would push work on the small submarine concept (SUM). (We have not identified any advantage over Trident and do not believe it maintains the Triad.)

I will keep you informed of further developments.

Harold Brown

Attachment

STATEMENT BY GOVERNOR SCOTT M. MATHESON

MONDAY JUNE 16, 1980

In September of 1979, President Carter announced his proposal to deploy the M-X missile system on the land in horizontal multiple protective structures. He indicated that he had charged the DOD and the United States Air Force with the task of achieving initial operational capability of that system no later than July 1 1986. He also noted that the most likely site for deployment of the M-X missile system was in the Great Basin Desert Valley of Utah and Nevada.

Since that time, the citizens of Utah and Nevada have been confronting a daily and continuing stream of information and mis-information, claims and counter-claims, estimates of impacts and denial of impacts from opponents and proponents of the M-X system. THe M-X proposal coupled with these conflicting viewpoints have raised substantial concerns among Utahans.

As Governor of the State of Utah, I have attempted to see to it that our decision regarding possible M-X deployment are made in the full glare of public scrutiny and based on factual information regarding the need for the M-X system and the true magnitude of its impact. To this end, I have spent an increasing proportion of my time becoming personally informed about national security issues, the survivability of our present strategic deterrent capacity, Soviet warmaking capability and intentions, strategic arms limitations proposals, as well as the specifics of the administrations proposal for M-X deployment. Based upon those reviews the continuing flow of information, Congressional hearings, M-X town meetings, the M-X debate held at Salt Lake Symphony Hall, and the views of thousands of citizens who have written me about this issue, I now wish to make clear my position on the present M-X proposal.

From the outset, beginning with Congressman McKay's hearing at Cedar City in November of 1979, I have insisted upon two fundamental ground rules. The first is that the present administration which proposed this weapon system to solve a perceived problem of strategic imbalance must bear the burden of proof in demonstrating 1) that a new weapon system is needed; 2) that the basing mode proposed for the system is the best of many options, the one most likely the achieve the Nation's strategic objectives; and 3) that the deployment area suggested be capable of handling the impacts of the proposed system. The second ground rule is that I have insisted on an arms length relationship between the State of Utah and the United States Air Force to permit us to perform a professional, independent crituque and evaluation of the proposal made by the Administration and the Air Force, in particular.

The arms length relationship has worked reasonably well, although I believe that the State of Utah (and Nevada for that matter) has been ill-served by the general unwillingness of the Air Force to promptly and candidly share all of the information which is in their possession about the M-X missile system and its impact. Indeed process failures on the part of the Air Force are many and substantial ranging from such matters as long time delays in furnishing requested information, and refusal to furnish information justifying a sharply reduced estimate of construction labor force to the incredulous proposition that the Air Force can perform a professionally competent environmental impact analysis on M-X deployment in Utah and Nevada --- Texas and New Mexico within a time period of less than a year.

Indeed as of today's date, only five weeks away from the scheduled issuance of the draft Environmental Impact Statement, some sub-contractors needed for the performance of specific components of this environmental work have not yet started to work.

In addition, the Administration has not seriously addressed the problem of setting up mechanisms to handle M-X impacts. They have ignored the lesson learned from building the Trident submarine base in Kitsap County, Washington and have failed to establish streamlined procedures to facilitate impact assistance for the enormous impacts which would stem from M-X deployment. In fact, it appears that a strategy of minimizing the impact of M-X has emerged. This strategy, however successful in the short run, will inevitably backfire as more facts become known and as the enormous consequences of this basing mode are understood.

It is tempting to dwell at length on the process failures since they are pervasive and have posed serious difficulties for the State of Utah, and our cities and counties, in our attempt to comprehend the total impact of the proposed system. However, in spite of these failures and what they imply regarding the seriousness with which the Administration has addressed the objectives of keeping the public informed and facilitating informed Congressional decision making I want to talk primarily about the substantive issues associated with the M-X missile system. I firmly believe that the fundamental questions about deploying the M-X missile system must be decided along substantive lines in response to the following key issues.

First, is there an imbalance in the strategic deterrent forces of the United States and the Soviet Union which requires correction?

Second, is the proposal from this Administration the best way to address such perceived strategic imbalance?

Extensive and careful examination of the first question including lengthy discussions with many leading national experts on all aspects of strategic warfare and national defense have led me to the inescapable conclusion that the United States has entered a period of significant deficiency regarding its strategic deterrent capability. The Soviet Union has invested so much of its resources in the development and deployment of increasingly accurate, powerful missiles that our land-based missiles, the Minuteman II and III, (together with a few older Titan missiles), are either now or shortly will be vulnerable to a Soviet first strike. This vulnerability is entirely a function of significant breakthroughs in Soviet missile accuracy and staggering increases in the number of Soviet missiles and warheads which can now be targetted on our strategic forces.

I recognize that the vulnerability of our land based missiles does not translate directly into immediate fear of nuclear war. However, I am persuaded that failure to respond to the vulnerability of these land based missiles will free the Soviet Union to concentrate on means of attacking the deep water submarine launched and bomber launched or air breathing components of the strategic Triad. My analysis has led to the conclusion that the United States needs to develop a strong response which promptly and significantly increases the survivability of our strategic forces. I also strongly believe that the increasing age and relatively smaller size and warhead capacity of the Minuteman system requires the continued development and deployment of a new far more capable missile than Minuteman III a description which the M-X missile appears to fill admirably. The critical question then becomes how to make this new strategic missile survivable against an increasing Soviet threat.

The Administration's proposal is to provide for missile mobility on the land among multiple aimpoints for protective structures requiring the enemy to target many structures in order to destroy one missile. In theory, this concept may be workable provided that the United States is prepared to enter into a race with the Soviets in which we try to build protective shelters faster than they can build missile warheads. Administration proponents of the M-X system argue that we can do so but I am not fully persuaded of the reasonableness of that assertion. Many members of the scientific community believe the Administration's proposal adds little or no survivability to our strategic force. Nevertheless, even if one accepts the Administration's assertion that we are prepared to engage in such a race where we build missile garages while the Soviets build weapons, I believe the proposed system is fatally flawed for two very important reasons. First, and most critical, even assuming the best possible timetable for M-X deployment with no delays associated with the environmental impact statement and potential litigation associated with it, the land withdrawal process or construction delays associated with such a massive system it will be at least mid-1980 before the first ten M-X missiles are deployed in 230 shelters. Because the Soviet Union has so many warheads this will result in only an insignificant increase in the survivability of our strategic land based missiles. It will be 1989 before the total system as proposed is deployed, a date which is almost sure to slip, probably by several years. Peculiar arithmetic stemming from the large and growing number of Soviet warheads and the proposed number of protective structures means that it is not until the M-X is almost fully deployed that we will have any significant increase in survivability of our land based missiles. Thus, from now in 1980 until 1990 or later the issue which drives us to build the M-X system, a threat to the survivability of our land based missiles, will not be addressed. The M-X system as proposed simply does not meet the critical test of timeliness.

Second, it is quite possible the present M-X deployment scheme will be obsolete before it is completed, technology is moving at a rapid pace. US strategic measures are followed quickly by Soviet countermeasures in a pattern which seems to be shortening the life cycle of new weapons systems. The M-X system, as proposed, relies almost totally on deception by hiding the missiles among many shelters. If deception failed to work adequately in our open society, we will inevitably see movement to increase security in the development area or to build an anti-ballistic missile defense system, or both.

The net result of these factors is that the 4600 shelter, 200 missile, $35B system is highly likely to grow in size, cost, complexity, and thus, impact. In spite of these problems, the Administration apparently has developed no workable alternatives to its own proposal.

Because I believe in a strong national defense, and because I am persuaded that Minuteman vulnerability is a real issue, I believe that we must seriously consider alternatives to the Administration's proposal. I am impressed by several options which I believe deserve serious attention from the Congress. The first is a proposal largely credited to Professor William VanCleave, DIrector of Defense and Strategic Studies at USC. His proposal is to begin immediately to build hundreds of additional vertical Minuteman type silos in the existing multistate deployment area for the Minuteman system and to simultanesouly begin converting Minuteman III missiles to mobile canisterized weapons which could be moved among these multiple aimpoints. I note that the present Minuteman deployment area now has fully developed support facilities and systems such as air bases, Air Force personnel, communication systems, road networks, and the like. Relationships with adjacent communities should be relatively stratightforward since these communities have been accustomed to the presence of Minuteman bases and launchers for over 20 years. Indeed, elected officials from throughout the Minuteman deployment area have recently written to the Air Force indicating how much they have enjoyed the benefits of the Minuteman system and the positive aspects of the community relationships which it has engendered.

Dr. VanCleave estimated in testimony delivered in May to US Senate Appropriations Subcommittee that the entire US stockpile of some 700 Minuteman IIIs could be modified and deployed in about three years. If accompanied by rapid construction, austere vertical shelters he believes that the system could be entirely in place by about 1985, well before the likely initial operating capability of the first ten M-X missiles. He further indicated that this alternative proposal had been estimated by a defense science board panel to shave about four years and $15B from the present M-X basing proposal.

Dr. VanCleave also proposes continuing the engineering development and construction of the M-X missile which is a view that I strongly share. Not only will the M-X missile fit within the vertical silos built for Minuteman, but as the Minuteman system ages the M-X missile will replace it. Additionally during the next several years, continuing analysis could be given to the need for other possible basing modes for the M-X missile without foreclosing the option for basing some portion of the system as now proposed.

This proposal appears to me to have several advantages. First and foremost it is said to address our urgent national security needs fare more promptly than the Administration's proposal. Second, it is apparently less costly. Third, it is far less disruptive to the deployment area, both environmentally and sociologically since it builds upon existing operational facilities and personnel thus obviating the need to build additional costly facilities.

I also wish to stress that this option would also permit the deployment of some Minuteman III and M-X missiles within the state of Utah. They could be placed in vertical silos built on land already under military control in the West Desert in Utah and serviced from Hill AFB. I have consistently stated that the citizens of Utah are very patriotic and although having sacrificed as much if not more than the citizens of any other state are willing to do their fair share by accepting some reasonable proportion of an expanded Minuteman-M-X vertical system under this option.

Closely related to this proposal is a suggestion that we continue to rely upon very hard vertical shelters protected by anti-ballistic missile defenses. This option supported by several defense analysts and decision makers including Senator Garn of our own state essentially rejects the idea of trying to match each new Soviet warhead with a US missile shelter. Recent dramatic technological advances suggest that it is now quite feasible to successful defend fixed silos with anti ballistic missile (ABM) systems. The new M-X missile could be "stuffed" into existing silos as it comes on line and additional new vertical silos could be built to accommodate M-X missiles with the total number of missiles sized to meet the Soviet threat.

Each of these land based options deserves serious analysis and measured consideration by the Congress. Accurate and unbiased estimates of the relative cost, speed of deployment, survivability and impact need to be presented for rigorous public scrutiny and debate. We must not blindly rush to embrace any one land based mode when the stakes, including cost and impact are so great.

Still another option which I think should continue to be vigorously addressed by the Congress is the proposal largely attributed to Doctor Sydney Drell and Dr. Richard Garwin for a shallow underwater mobile submarine or SUM. The SUM proposal also has the apparent advantage of responding to the critical issue of timeliness in deploying additional survivable missiles since each submarine deployed with its missile adds immediately to the total of survivable US strategic forces. If the entire 200 M-X missiles were to be deployed in submarines, the system would probably equal the cost of the land based M-X system but would have the added advantage of not disturbing the land or the communities adjacent to where the system will be deployed. While I recognize that there are concerns about the long term survivability of submarine based missiles, it seems to me they are no more serious than those associated with any componentes of the Triad. In addition, a relative large number of small submarine poses an entirely different warplanning problem for the Soviets than attacking deep water submarines, bombers and cruise missiles, or land based missiles. Thus it represents a very effective alternative deterrent in my judgement and may not represent an abandonment Triad concept.

In summary, I do not believe that the Administration has met the burden of proof in demonstrating that the M-X missile basing mode which they propose is deployable in a timely fashion. I do not believe it is the best basing mode and it is not appropriate for the Utah/Nevada deployment area. I call upon the President and the members of Congress to respond directly to these concerns.

I want to make one final comment about the proposed basing of th M-X in Utah and Nevada. Several people have asserted that the concerns which we have previously expressed regarding M-X deployment have been narrowly and pariocheially based in a desire to preserve Utah and Nevada from the ravages of this unwanted and unwarranted federal largess. The question is far broader than that. National security can be definted in many ways. It can be defined in terms of the number of nuclear devices which exist in our stockpile. It can be measured in conventional weapons and the force readiness of the Army, Navy, Marine Corps, and Air Force, an area where we are critically deficient and where any cost savings from M-X could be usefully invested. In fact, it is my opinion that this Nation must promptly address the need to rebuild an refit our conventional forces. They are in shocking condition. Since the nation cannot afford unlimited expenditures for defense priorities must be set and our conventional forces deserve the highest priority.

But national security can also be measured in terms which are critically important to the Nation and to the State of Utah, such as energy independence and production of strategic material.

West, in general, and Utah specifically, have been proposed as the target area, not only for M-X but for coal development, construction of large, coal-fired electrical generating plants, such as IPP, the development of synthetic fuel from tar sands and oil shale and the development of critically needed strategic materials such as berryllium aluminum, molybdenum, and the like. Utah has a finite capacity to bear the burdens and demands of large scale development. We have only a finite amount of water and we cannot manufacture more. Our labor force and mechanisms for developing capitol have limits to their capacity. Our cities and towns have limits to growth. In my judgement, this Administration has not carefully thought through the implications of the competing demands on Utah resources which it is simultaneously presenting through a variety of largely uncoordinated policies. Utah can and will play an important national security role, but I believe it should play that role primarily in terms of helping achieve energy independence -- not as a location for the deployment of a strategic weapon system with such enormous impacts. This is a judgement which I have reached after long and serious soul-searching.

I am grateful to the members of our Congressional delegation for their hard work in attempting to limit the amount of the M-X system which might be deployed within Utah and Nevada. However, I believe that the currently proposed split basing limitation does not go far enough since it does not address the fundamental issue of timeliness Furthermore, it is not a final answer since this Congress cannot bind next, the Air Force is still saying that split basing will cost billions more and the Secretary of Defensehas recently reiterated his opposition to split basing.

Inasmuchas the Administration M-X basing proposal has not met the burden of proof test and cannot be fully operational until the late 1980s or early 1990s, I, therefore, must declare that I cannot support deploying the M-X missile system in Nevada/Utah in the proposed horizontal multiple protective structure.

The requirements of our federal system impose special responsibilities. As citizens of Utah we are concerned for the way of life we have come to cherish and we are committed to preserving it. As citizens of the United States we are concerned with the security of our Nation and we are prepared to do our part to defend it. When as complex and demanding as national defense are involved, these two commitments are inseparable. For on issues such as M-X, we msut give effective voice to our immediate conccerns while at the same time educating ourselves to the wider aspects of policies whose consequences extend across states and across generations. Only in this way can we participate effectively in the crucial decision that will shape our future, as citizens of our state, and as citizens of our Nation. It is within this context that I present my views to you today. Thank you.

Summary

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D.C. 20503

June 24, 1980

OFFICE OF
THE DIRECTOR

MEMORANDUM FOR THE PRESIDENT

FROM: JIM McINTYRE Jim

SUBJECT: Controlling Year-End Buying

Attached copy of memo is FYI.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JUN 24 1980

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Controlling Year-End Buying

As we enter the last quarter of fiscal year 1980, I ask you to make sure that we continue to use public funds wisely by avoiding unnecessary year-end buying. I cannot overemphasize that prevention of unneeded or unwise Federal Government spending is an essential part of our efforts to control inflation. Public funds will be used only for necessary program purposes, and will not be obligated solely to commit funds before they lapse. Good procurement practice used to insure that fair and reasonable prices are paid by the Government will not be disregarded in an effort to obligate funds quickly.

Please issue instructions to your contract and program offices assuring that:

-- Obligations for the fourth quarter of the fiscal year are no higher than for the third quarter, except where seasonal requirements, essential program objectives, or procurement lead-times justify a higher level, or where more money is needed to restore program slippages to approved levels;

-- Purchases are not made to avoid what otherwise would be an outlay shortfall;

-- Grants are subjected to rigorous review and are not made just to keep funds from lapsing; and

-- Orders for services, supplies, materials, and equipment are not more than are needed to meet approved program objectives.

(1) The instructions will require that the following be closely controlled and the need reevaluated and clearly justified:

  o Procurement of additional hours of service or items of supply or equipment that were not in the original procurement request with funds that would otherwise lapse.

  o Purchase of additional items or services not contained in the original procurement request or contractor proposal, with funds negotiated out of contractor's proposals or those available because estimated funding needs were in excess of the funds actually required.

- Exercising of options, orders against basic ordering agreements or requirements-type contracts, or the funding of the later years of a multi-year contract.

- Adding funds to Government Owned Contractor Operated, Federal Contract Research Center, Federal Funded Research and Development Center and other such ongoing contract types.

(2) Funds obligated to cover unpriced items, such as spare parts or data will not be in excess of the current best estimate of need for those items. In addition, those in excess of the original procurement request must be clearly justified.

(3) Funds will not be obligated for requirements-type or task contracts in excess of anticipated needs based on projections of prior use.

(4) Letter contracts should be closely monitored. Funds will not be obligated for letter contracts in excess of that allowed by regulations, nor will letter contracts be used as a vehicle to obligate funds that would otherwise lapse.

(5) When contracts are modified or change orders issued to increase level of effort or procure additional tasks, items or services, the additional requirements must be validated. The subcontracting of substantial parts of such modifications, change orders or tasks may indicate contracts are being used as vehicles to avoid competition.

(6) The procurement of consultant services and modifications of current consultant contracts will be reviewed for compliance with OMB Circular No. A-120, April 14, 1980.

(7) Purchases or orders for administrative supplies or services, such as office furniture, supplies, or renovation will not be approved unless planned in advance or needed to meet an emergency.

(8) Purchases by or orders from central procurement offices, such as the General Services Administration and the Defense Logistics Agency, or off the Federal Supply Schedule will not be in excess of current utilization factors and optimal inventory levels.

(9) Procurements will not be divided just to come within small purchase procedures. However, this will not be construed to prohibit breakout of items for small or minority procurements.

Good procurement practice and accountability requires that:

1. A cost or price analysis be made for all contracts.

2. All non-competitive proposals be audited or audit information be obtained, unless reasonableness of price can be established clearly by other means.

3. Negotiation, where applicable, will be conducted prior to contract award -- certification of current cost or pricing data will not be used as a substitute for pre-award price negotiation.

4. "Unsolicited" proposals must be unsolicited and will not be accepted unless truly unique or innovative and award will not be made sole source if other sources are available.

Each agency will issue instructions that require a close review of end-of-year purchases by responsible reviewing authorities. Inspector General, audit, management, and the general counsel's staff should ensure that end-of-year purchases are not made merely to obligate funds before they lapse. The review should also ensure that awards are necessary and conducted in accordance with good procurement practice, and that contract prices are reasonable.

Within 30 days the head of each department and establishment will report to the Office of Federal Procurement Policy action taken to implement the provisions of this memorandum. The procedures for the review of end-of-year purchases should also be included.

Those responsible for review of procurement and grant actions (e.g., contracting officers, program officers, legal counsel, auditors and Inspector General personnel) should consider instances of noncompliance with this memorandum to be an indication of waste.

I count on your full cooperation and personal attention in implementing this memorandum to save the taxpayers as much money as possible and to support the President's fiscal objectives.

James T. McIntyre, Jr.

James T. McIntyre, Jr.
Director

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	FOR APPROPRIATE HANDLING
	LAST DAY FOR ACTION

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

ACTION	FYI	
		VICE PRESIDENT
		JORDAN
		CUTLER
		DONOVAN
		EIZENSTAT
		MCDONALD
		MOORE
		POWELL
		WATSON
		WEDDINGTON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ANDRUS
		ASKEW
		BERGLAND
		BROWN
		CIVILETTI
		DUNCAN
		GOLDSCHMIDT
		HARRIS
		KREPS
		LANDRIEU
		MARSHALL

		MILLER
		VANCE
		BUTLER
		CAMPBELL
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		FRANCIS
		HARDEN
		HERTZBERG
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PRESS
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Summary

ID 803425

THE WHITE HOUSE

WASHINGTON

DATE: 17 JUN 80

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT

AL MCDONALD

JACK WATSON

STU EIZENSTAT

JODY POWELL

SUBJECT: MCINTYRE MEMO RE FEDERAL CASH MANAGEMENT PROJECT

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

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ACTION REQUESTED:

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JUN 16 1980

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr.

SUBJECT: Federal Cash Management Project

You directed your Reorganization Staff in November 1977 to undertake a comprehensive review of cash management policies and procedures throughout the government.

As you know, the project was highly successful. The more than 80 improvements that resulted from its work will save the government over $450 million in annual interest costs. The savings result from accelerating the processing and depositing of receipts, controlling disbursements, and eliminating idle cash balances. The project's final report summarizes these returns. A copy of it is attached.

The Project also developed the cash management tax initiatives that will yield annual interest savings of more than $695 million when fully implemented. These proposals, which were included in your FY 1980 and FY 1981 budgets, will also provide a one-time acceleration in budget receipts of $12.9 billion over the next three fiscal years. Since the project's review was concluded, the total savings to the government have proven to be even greater than originally anticipated.

The work started by the Project is now being carried on under our Financial Priorities Program. We are continuing to work with the agencies to identify other financial management targets of opportunity.

This report, to be released to the public, documents the scope and success of these efforts.

Attachment

STRENGTHENING CASH MANAGEMENT IN THE FEDERAL GOVERNMENT

ACHIEVEMENTS AND INITIATIVES

FEDERAL CASH MANAGEMENT PROJECT
PRESIDENT'S REORGANIZATION PROJECT
OFFICE OF MANAGEMENT AND BUDGET

MARCH, 1980

CONTENTS

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

PREFACE TO THE REPORT

The Federal government is saving more than $450 million a year by managing its cash better and using sophisticated cash management tools. Additional savings of over $695 million annually are expected in subsequent years through more timely collection of tax receipts.

These savings result from a Presidential initiative to improve Federal cash management by streamlining the way the government collects, processes and deposits its receipts; by controlling more carefully its disbursements; and by reducing its idle cash balances. These actions allow the government, in the same manner as private firms, to make the most out of the time value of money it holds, collects, and disburses, thereby reducing its debt requirements and resulting interest costs.

This Presidential initiative was coordinated by the Office of Management and Budget's Federal Cash Management Project. The Project reviewed cash management policies and practices in more than 20 agencies and initiated more than 80 measures to strengthen cash management in the Federal government. The $450 million estimated in interest savings was based on Treasury borrowing costs and government cash flows at the time of the initial review in 1978. These savings to the government have now almost doubled, due to higher interest rates and greater cash flows.

In addition to these initiatives, the President's 1980 and 1981 budgets included cash management tax reforms that will yield annual interest savings of more than $695 million when fully implemented. These reforms will also provide a one-time acceleration in budget receipts of $12.9 billion over the next three fiscal years.

This report summarizes these initiatives. The work of the project is another illustration of the President's determination to improve government efficiency and to strengthen its management practices.

James T. McIntyre, Jr.

James T. McIntyre, Jr.
Director

EXECUTIVE SUMMARY

PRESIDENTIAL MANDATE

President Carter, on November 14, 1977, directed his Reorganization Staff and the Treasury Department to undertake a comprehensive review of cash management policies, practices and organization throughout the Federal government.

The Federal Cash Management Project was established in response to this directive. Within the constraints of monetary and economic policy, and building on the continuing cash management initatives of the Treasury Department, the Project sought ways to apply modern cash management techniques to the government's massive cash flows. This included initiating cash management procedures for accelerating the processing and deposit of receipts, improving control over disbursements, and eliminating idle cash balances. These actions will reduce Federal debt requirements and resulting interest costs.

ACCOMPLISHMENTS

The Project initiated more than 80 improvements in over 20 agencies to strengthen cash management in the Federal government. These cash management improvements result in interest savings of more than $450 million a year. These savings were calculated primarily on the basis of 1977 and 1978 cash flows and a 6.1% interest rate. (This interest rate was representative of Treasury borrowing costs at the time the Project was initiated in 1977.) The $450 million in interest savings would have to be almost doubled to reflect current interest rates and cash flows.

The savings result from speeding up the collection, processing, and deposit of receipts; controlling disbursements; and reducing or eliminating idle cash balances. The major improvements are as follows:

- Accelerating the collection, processing, and deposit of receipts generates savings of over $217 million annually from

  - -- use of wire transfers
  - -- earlier billing for amounts owed the government
  - -- streamlining collection procedures
  - -- prompt deposits of money received
  - -- improved procedures for interagency transfers

- Controlling disbursements results in savings of over $145 million annually because of

  - -- wider use of letters of credit to replace advances
  - -- improvements in the existing letter-of-credit system
  - -- paying contractors and vendors on the due date
  - -- avoiding late payment penalties

- Reducing idle balances will save over $95 million annually through

  - -- investing excess operating cash in obligations of commercial financial institutions maintaining Treasury tax and loan accounts
  - -- reducing and eliminating excess cash balances held outside the Treasury
  - -- holding retainage on construction projects in the Treasury
  - -- recovering excess and unspent advances in the hands of grantees.

CASH MANAGEMENT TAX INITIATIVES

In addition to the above initiatives, the Project developed a plan to accelerate the flow of tax revenues from corporations and from individuals who are required to make estimated payments by selectively reducing tax deferral periods, increasing payment frequencies, and raising the amount due when periodic estimated payments are required. The plan does not affect legal tax rates and the majority of the actions can be accomplished administratively. The plan also includes a number of proposals to ease the deposit and paperwork requirements for small businesses.

It is estimated that these cash management tax initiatives, when fully implemented, will save over $695 million annually in interest and will provide a one-time acceleration in tax revenues of over $10 billion.

These initiatives will improve the effectiveness of our pay-as-you-go tax system and represent a big step towards greater equity between large corporations and individuals with regard to how and when taxes are paid.

ENSURING STRONG CASH MANAGEMENT

The Federal government has taken a number of progressive steps to ensure continued and effective management of its massive cash flows. These include:

-- issuance of government-wide cash management regulations and policy circulars by the Treasury Department.
-- release of policy circulars by the Office of Management and Budget on agency bill paying practices and the handling of retainages on construction contracts.
-- inclusion of provisions in charters for the newly created Inspectors General which assure that cash management is a highly visible part of the Inspectors General program.
-- use of individual incentives to promote excellence in the government's cash management program.
-- development of cash management training programs for the government's financial managers.
-- improving cash management has been made one of the nine priorities in the Administration's Financial Priority Program announced May 7, 1979.

CHAPTER I. APPROACHING FEDERAL CASH MANAGEMENT

SCOPE OF THE PROJECT

President Carter had directed that the review of cash management policies, practices, and organization throughout the government be comprehensive. As such, the scope of the Project included all monetary transactions of the government including tax receipts, trust funds, loan programs, revolving and stock funds, foreign currency activities, borrowing, proprietary receipts, and all budget and off budget funds. In short, the study encompassed the entire cash flow of the Federal government. While the scope was wide, the focus was more narrow - to concentrate on the most massive elements of the cash flow and those areas where there was reason to believe that substantial opportunity for improvement existed.

The Project also reviewed and built upon the considerable body of initiatives already underway or contemplated by agencies as well as the substantial improvements that had been initiated by the Treasury Department.

ORGANIZATION OF PROJECT

The Federal Cash Management Project could not have reformed cash management by itself. Instead, it served as a catalyst to create, foster, and coordinate improvements; as a technical clearinghouse to facilitate the broader application of successful cash management practices; as the vehicle to transfuse private sector expertise; and as a way to emphasize Administration concerns about cash management and to provide the visibility needed for improved cash management.

Given this role, the Project's staff was modest in size, highly leveraged, and technically expert (See Appendix B for a list of staff members). It was composed of three small groups.

First, a few task force leaders and senior analysts provided technical and project leadership for the agency cash management reviews. Their day-to-day efforts were at the agencies where the joint cash management reviews took place.

Second, we assembled a small group to undertake the government-wide review of policies and practices. This staff had prior experience of cash management reviews, either within government or industry.

Third, a small staff was established to assist the Executive Director. This group was responsible for the Congressional information and public awareness programs.

We had good success in finding highly talented Federal professionals with cash management experience. To avoid even the appearance of a conflict of interest, we also recruited financial professionals from private sector firms to play key roles in our effort. Nearly half of the Project staff were participants in the Executive Loan Program. The scope, benefit and impact of this effort were made possible by the quality of the staff.

PROJECT OBJECTIVES

The Project's objectives included identifying opportunities for:

1. Accelerating the inflow of receipts. There were opportunities for the Federal government to collect some of the money that is due in a more business-like manner. For some large receipts there were sophisticated methods of receiving "good funds" through electronic fund transfers which eliminated transit and processing time.

2. Streamlining receipt processing. At times, either the uneven flow of receipts, administrative bottle-necks or inattention to the time value of the money unnecessarily delayed the processing of receipts. The Project identified such bottle-necks and other opportunities to streamline receipt processing.

3. Utilizing financial institutions. During the course of the Project, a number of opportunities were identified for improving the Federal government's use of commercial bank depositories, including the selection and compensation of financial institutions.

4. Controlling disbursements more closely. The Project identified further opportunities to use and refine the letter-of-credit concept, as well as practices to preclude both late and premature payments of other bills and obligations.

5. Eliminating excessive idle cash balances. The Project identified opportunities to reduce or eliminate the levels of idle cash balances, including cash held outside the control of the Treasury Department.

6. Ensuring institutional cash management excellence. In addition to identifying cash management improvement opportunities, the Project sought to institutionalize cash management practices and policies in the agencies.

7. Developing incentives and training. The Project sought to identify and institute incentives to make financial, budget, and program managers more aware of the cash management implications of their decisions and focus their continuing attention on cash management as an important responsibility.

KEY FEATURES OF APPROACH

Key features of the approach included:

1. Building on current cash management initiatives. The Administration's concern for sound cash management spurred a wide range of improvement projects in a number of departments and agencies. Further, the Treasury Department's ongoing programs to enhance cash management (e.g., expanding the use of the Treasury Financial Communications System) provided effective tools to achieve real cash management benefits. The Project built on these efforts and sought further opportunities for their application.

2. Commitment to early measurable results. The Project sought to accelerate the early implementation of improvements to gain the financial savings as early as possible.

3. Transfusion of private sector cash management skills. The Project aggressively recruited private sector executives and managers with cash management expertise through the White House Executive Loan Program.

4. Close working relationship with the Treasury Department. The Project was earmarked by a cooperative spirit and close working relationship with the Treasury Department, particularly its Fiscal Service. This excellent relationship was fostered by a common goal - better cash management throughout the Federal government.

5. Collaboration with the General Accounting Office. The GAO and the Project shared the common goal of strengthened cash management and worked together to identify opportunities and support each other's initiatives.

6. Sensitivity to the impact on the public. The Project carefully weighed the potential impact of cash management improvements on affected public groups (e.g., small vendors, the financial community, recipients of transfer payments, state and local governments) as well as their impacts on other administration programs (such as the minority banking program).

7. Association with the Joint Financial Management Improvement Program (JFMIP). JFMIP is the traditional mechanism for effecting government-wide financial management improvements sponsored by the Program's four prime members - Treasury, GAO, OMB, and the Office of Personnel Management. The JFMIP enjoys a high reputation among career Federal financial managers and as a result provided valuable support to the Project.

AGENCY REVIEWS

Due to the limited number of team leaders and core staff, it was necessary to carefully target our effort. Two major criteria guided our selection of agencies for review: (1) the magnitude of cash flow and the resultant potential for savings and (2) agencies with a sufficiently wide range of receipts and disbursements.

For each agency review, the Project formed a review team with agency representatives. One or two senior team members from the Project provided technical expertise and leadership. This approach provided for both appropriate independence and a rapid implementation capability.

The teams started by developing an agency cash management profile, documenting the agency's cash flow, and cataloguing cash management initiatives underway or proposed. The team then began to diagnose other cash management opportunities. With the concurrence of agency management, the review team then developed a tailor-made work plan for the agency. Agency management was involved with the team from the outset, would receive reports on its progress, and see that the recommendations were implemented.

DETERMINATION OF SAVINGS

This report identifies more than 80 initiatives undertaken by the Federal government to strengthen its cash management practices. These initiatives result in interest savings of more than $450 million a year through the reduction of Federal debt requirements and resulting interest costs.

The interest savings used in this report reflect the total impact of the cash management improvements after a full year of implementation. Cash flow figures are based on annual receipts and disbursements at the time the reviews were made. Interest savings are calculated at 6.1% (the projected interest rate on 91-day Treasury bills used in the FY 1979 President's budget for calendar years 1978-1981) over a 360 day financial year on those amounts of money that need not be borrowed because of cash management improvements. This rate was representative of Treasury borrowing costs at the time the agency reviews were made. It should be noted that the interest savings would have to be almost doubled to reflect current interest rates and cash flows.

The interest savings of $695 million applicable to the cash management tax initiatives were projected by Treasury's Office of Tax Analysis. The Office of Tax Analysis developed their projections on the basis of a 9% interest rate and 1979 cash flows. (The $695 million excludes the proposals to accelerate FICA deposits by States and Customs duties as the savings from these proposals are included in Chapter II of this report.)

CHAPTER II. ACCELERATING RECEIPTS

Good cash management includes collecting and depositing receipts as fast as practical. During the Project, joint Project/agency cash management teams identified many areas for improvement in the collection, processing, and deposit of receipts. Savings from all receipt improvements instituted since February, 1977 should exceed $217.6 million a year.

The remainder of this chapter describes in detail those initiatives underway to improve the collection, processing, and deposit of government receipts.

A. TREASURY DEPARTMENT

1. Accelerated Processing of Balance Due Notices By IRS

The classification of Federal tax deposit (FTD) cards (used to credit taxpayers' accounts for payments made through Treasury's Federal tax deposit system) is now handled by the Internal Revenue Service (IRS). Previously, the tax cards were forwarded from commercial banks to Federal Reserve Banks for classification and then to Treasury's Bureau of Government Financial Operations for verification before being forwarded to IRS for posting to the taxpayers' accounts. Under the revised system, the tax cards are forwarded directly from the commercial banks to the appropriate IRS Center.

Elimination of the processing and mailing of the cards by the Federal Reserve banks and Treasury's Bureau of Government Financial Operations expedited the transmission of information to IRS. This enabled IRS to accelerate by 3 weeks the issuance of balance due notices and the subsequent collection of some 450,000 accounts representing an estimated $290.0 million.* This was followed by an additional acceleration of 2 weeks in May 1978.

* Since IRS does not maintain data concerning the dollar value of underpaid tax billings, this estimate was derived by applying the average value of FTD payments to the known value of billings. Therefore, this represents an "order-of-magnitude" estimate.

The three-week acceleration resulted in an increase in available funds through January 1978 of about $242.0 million and an estimated interest savings to the government of approximately $1.0 million. The additional two-week reduction in the billing cycle effective in May 1978 saves approximately $638.0 thousand on an annual basis. Total annual interest savings after 1978 for the full 5 week acceleration are expected to be approximately $1.7 million.

2. Expedited Processing of Tax Payments Received By Federal Reserve Banks

Two types of procedural changes were made in handling the flow of available funds for tax payments made at Federal Reserve Banks. First, Treasury regulations were amended to require taxpayers making payments directly to Federal Reserve banks or branches to make such payments in the territory where the paying unit is located. The payment is to be made by check drawn on a commercial bank in that territory. Secondly, the Federal Reserve agreed that its receiving bank or branch would fully process all such payments instead of the past practice in which some branches would send all payments to the main bank for processing. This resulted in delays in depositing checks and posting credits to the Treasury's operating accounts.

Both changes took effect on January 1, 1978. Based on the FY 1976 level of $3.7 billion in direct deposits to the Federal Reserve, and the resultant one day gain in available funds, the annual interest savings is almost $629 thousand. Further, Treasury measured the results of the full processing in five (of twelve) Federal Reserve Districts where the greatest impact was expected. The result (based on January - May 1978 activity) was an increase in available funds of almost 5 1/2 days on checks of more than $403 thousand for an annual interest savings from these two changes of more than $1 million annually.

Additional procedural improvements will also expedite the flow of funds to Treasury's operating account. A sampling of mail remittances received at the Chicago Federal Reserve Bank showed delays of at least one day in crediting 8% of such remittances to Treasury's operating account. Based on average daily volumes of mail receipts, this translates to a one-day delay on $5.6 million. The procedure was corrected in June 1977 producing a permanent increase in available funds of $5.6 million.

The Cincinnati Branch of the Cleveland Federal Reserve Bank was also delaying credit to Treasury's operating account by 1 to 3 days on tax deposits which lacked necessary FTD cards or other documentation. A procedural change effective in July 1977, provides for immediate prossessing and deposit of these tax receipts. This change was made in all banks (Cincinnati, Cleveland, and Pittsburgh) of the Fourth Federal Reserve District with an increase in funds available of $1.8 million.

The interest savings on the accelerated deposit of $5.6 million at the Chicago Federal Reserve Bank and $1.8 million at the Cincinnati Branch in future years will be $451.4 thousand annually.

3. Deposit of Tax Payments by IRS

In September 1977, IRS required its district offices to deposit no later than the next workday any single remittance over $50,000 relating to estate, gift and corporation tax receipts. In January 1978, IRS expanded the instruction to include any remittance over $50,000. In March 1978, the deposit instructions were modified, requiring the ten Internal Revenue Service centers to deposit all remittances over $50,000 no later than one day after mail extraction.

IRS measured the impact of this new procedure from January through June 1978. The total value of such large checks was $4.6 billion over the six months. Available funds accruing to Treasury increased an average of 2 days as a result of this change on estimated annual payments of $10.0 billion. This resulted in an annual interest savings of $3.4 million.

In the fall of 1978, IRS completed a study recommending that this deposit procedure be extended to checks over $25,000. This change took effect on November 1, 1978 resulting in an average 2 day acceleration on annual deposits of $15.8 billion for an annual interest savings of $5.4 million. IRS is studying the possibility of lowering the cutoff below $25,000.

Finally, IRS has begun testing the special coding of mailing envelopes at one service center to allow earlier identification and accelerated processing of remittances. This should result in at least a 1-day gain in available funds on as much as $10.8 billion for annual interest savings of $1.8 million.

4. Treasury Financial Communications System (TFCS)

A computer-to-computer link exists between the Treasury Department and the Federal Reserve Bank of New York for transferring funds electronically between commercial banks and the Treasury. During the twelve-month period ending January 31, 1978, TFCS was approved and used for transferring more than $2.2 billion of new receipts from nine outside sources into Treasury's operating account. This accelerated the availability of these funds to Treasury by three days, yielding interest savings of more than $1.0 million. Annual cash flows from these nine sources will total over $7 billion. In subsequent years, use of TFCS for these receipts will yield more than $3.5 million annually in interest savings.

5. U.S. Customs Service

Brokers and importers pay customs duties on merchandise as it enters the U.S. The duties are paid by checks that remain with the entry documents until Customs completes their processing. Customs is now implementing procedures to separate and deposit the checks immediately upon receipt from brokers, saving 7 days and $6 million annually on duties of $4.9 billion. Customs is also coordinating efforts with bank depositories to ensure that daily deposits are made as close as possible to the deposit deadlines and cut-off times established by the local bank depositories. This will result in an average savings of one workday and $1.2 million in annual interest savings.

On about $4.0 billion of these duties, the immediate delivery import procedure is used whereby the actual payment by the brokers and importers is deferred until 10 workdays after release of the goods. The Customs Service, consistent with Project and GAO recommendations, is planning to reduce the 10 workday deferral period to 3 workdays. The annual interest savings due to the earlier availability of funds to the Treasury will be about $6.8 million.

6. Bureau of Public Debt

The Bureau of Public Debt is initiating action to accelerate the deposit of proceeds from the sale of Series E savings bonds by 39,000 issuing agents into Treasury's accounts at the Federal Reserve Banks. FY 1978 Series E bond sales totaled $7.8 billion. The annual interest savings, based on the FY 1978 sales level, amounts to $18 million.

Current deposit requirements give issuing agents a great deal of flexibility in remitting sales proceeds. The absence of a monitoring system makes it extremely difficult to determine and enforce timely remittance.

The Bureau is now revising its deposit requirements to require more frequent remittances. The Bureau is also working with the Federal Reserve Banks to establish a system for monitoring and ensuring compliance by the issuing agents.

7. Special Banking Arrangements for Larger Volume Deposits

Treasury is seeking ways to acquire banking services at the least cost to the government, while ensuring the earliest possible availability of funds. This effort has primarily involved acquiring bank services through competitive bidding for large dollar-volume deposits. Six of the IRS service centers and 70 agencies in Washington, D.C. now deposit their receipts in banks selected competitively and a similar arrangement at one additional service center is expected to soon follow.

The use of competitive bidding for six service centers continues to accrue savings estimated for the 12 months ended January 31, 1978 at more than $4.3 million. For the additional service center with its estimated total funds flow of $4.4 billion per year, Treasury expects to accrue annual interest savings of $261 thousand.

Treasury is also soliciting competitive bids for receipts flowing through the U.S. Customs terminal in Long Beach, California. The total funds flow is expected to be about $900.0 million per year with anticipated annual interest savings of $53.1 thousand.

Treasury plans to eventually acquire competitive banking services for the remaining three IRS service centers. Their combined deposits are estimated at $18.5 billion. These are expected to yield prospective annual savings of $1.1 million, net of bank costs.

8. Bureau of Alcohol, Tobacco and Firearms (ATF)

Alcohol and tobacco taxes amounting to almost $6.9 billion are currently either hand delivered or mailed to IRS district offices for processing and deposit. The Bureau is drafting requlations to require transmission of large tax payments (from the top 150 plants with 97% of dollars paid) by TFCS, saving almost $5 million in annual interest.

B. DEPARTMENT OF DEFENSE (DOD)

Selecting and Compensating Financial Institutions.

The responsibility for managing and funding the overseas military banking program was transferred from the Treasury Department to DOD on October 1, 1977. DOD is now seeking competitive bids for the essential banking services on military installations in countries which are not constrained by the Status of Forces Agreement. As a result of the first round of contract negotiations, the net cost of funding was reduced $7.5 million from the original bids of $24.5 million. Based on actual operating results during FY 1978, the cost of banking services is projected to be no more than $10.4 million, for a further reduction of $6.6 million.

Additionally, a Deutschemark static account in Germany was eliminated on August 31, 1978, resulting in the return of $14.7 million to the Treasury. Another $1.0 million was expected to be returned by eliminating compensating balances in Spain.

The culmination of all these actions will be an annual interest savings of about $1.4 million.

C. DEPARTMENT OF ENERGY (DOE)

1. Naval Petroleum Reserves

DOE has taken steps to improve the flow of cash from sales of Naval petroleum reserves. One step is the use of TFCS for collecting proceeds from these sales. The collections are estimated at $485.0 million. Use of TFCS will result in a 2.8 day gain for an annual interest savings of about $230.0 thousand.

A second step eliminated internal processing delays of 1.7 days in depositing the receipts from these sales. These receipts totalled $103.0 million, with resultant annual interest savings of $30.0 thousand. The total savings from these two steps are $260.0 thousand.

An additional change was made for the collection of $14.4 million of crude oil sales to a vendor at Casper, Wyoming. These sales were billed on a weekly basis with payment mailed to Germantown, Maryland. An average of 25 days elapsed between receipt of the payment and ultimate deposit. Conversion of these receipts to TFCS will result in an annual interest savings of more than $61,000.

2. Bonneville Power Administration (BPA)

The annual billings for BPA power sales amount to over $300.0 million of which $180.0 million represent actual cash collections. The balance is billings to customers who are also creditors of BPA, so that billings offset amounts owed by BPA.

A sampling of about 92% of the total cash collections for a 3-month period revealed three opportunities for improvement. First, collections were made an average of 13.33 days after a thirty-day period following the end of the service period. Secondly, there was a 1.52 day delay in the processing of collections for deposit. Finally bank float caused a 2-day delay from time of deposit to credit to Treasury's account. This total delay of 16.85 days is being eliminated by revised billing procedures and conversion to TFCS, saving over $514.0 thousand in annual interest.

3. Other Department-wide Receipts

Analysis of deposits made by DOE finance offices from January through March 1978 indicated that, on average, $64.8 million of collections from non-government sources were deposited 1.2 days late with commercial banks and the Federal Reserve. DOE is establishing procedures to eliminate this delay and comply with the Treasury requirements for daily deposit. The annual interest savings from this action will be $51.0 thousand.

Six DOE finance offices mail collections to Federal Reserve Banks. This results in an average delay of about 3 days on $11.6 million and an annual interest loss of $6.0 thousand. DOE is exploring more efficient ways of handling the deposits.

DOE also collects large receipts from other government agencies via a Treasury check subsequently deposited with commercial banks. This normally results in a one-day loss in available funds since the check is charged by the Federal Reserve against the Treasury account one day before the offsetting receipt. Such receipts from other agencies totalled $88.9 million, exclusive of DOD, resulting in a $15.0 thousand interest loss. Another $328.0 million was received from DOD, resulting in an interest loss of about $55.6 thousand. DOE is proceeding to collect from non-DOD agencies through an interagency paper transfer which eliminates the check. Since DOD writes its own checks, DOE is pursuing a separate solution to their handling.

D. DEPARTMENT OF STATE

Agency for International Development

AID collects cash receipts in three ways: (1) TFCS, (2) checks mailed to AID, or (3) checks mailed to the New York Federal Reserve Bank. Currently, about $300.0 million of receipts are on TFCS. AID is taking action to require that all new loans or renegotiated loans be repaid by TFCS. This action will increase receipts flowing through TFCS by more than $200.0 million. The resulting 3-day gain should provide annual interest savings of more than $101.7 thousand.

E. DEPARTMENT OF AGRICULTURE

1. Agricultural Stabilization and Conservation Service (ASCS)

The ASCS county offices receive $3.1 billion in receipts from 327 thousand separate transactions. These funds are recorded and mailed on the date of receipt to the nearest Federal Reserve bank or branch for deposit into the Treasury operating account. The Department is establishing local depositories to eliminate mail float delays, saving an estimated $525.0 thousand annually.

2. National Finance Center (NFC)

NFC procedural changes accelerated the deposit of $75.5 million of receipts by 3 days. These changes took effect in June 1978, yielding interest savings of approximately $18.0 thousand for the balance of FY 1978, and annual savings of $55.0 thousand thereafter.

3. Rural Electrification Administration (REA)

REA collects over $600.0 million in receipts annually. Only about $100.0 million are transmitted by TFCS. REA is considering converting additional receipts of up to $350 million to TFCS, accelerating the availability of funds to the Treasury by 2.1 days. This will result in interest savings of $124.0 thousand annually.

4. Farmers Home Administration (FmHA)

a. St. Louis Finance Center

In December 1977, FmHA improved the speed of processing and deposit of payments made through county offices by increasing the staff at the St. Louis Finance Center, reducing the processing backlog from 5 to 1.4 days. This 3.6 day gain resulted in a FY 78 interest savings on $4.7 billion in loan payments of $1.5 million, net of the administrative cost of the 20 additional employees. In future years, annual net savings will total $2.5 million on $3.2 billion in loan payments.

b. Local Depositories

FmHA is committed to expediting further the deposit of receipts flowing through the county offices. Subject to the availability of depository banks, FmHA will deposit their receipts in locally designated Treasury General Accounts. The net benefit of making local deposits on $2.7 billion, after bank service costs, will be about $3.1 million in interest savings.

5. Food Safety and Quality Service (FSQS)

a. Meat Quality Collections

There was a delay of 21 days in FSQS's billing of food processors for services performed. ($16.2 million in FY 78, $18.9 million in FY 79.) Beginning October 1, 1978, the billing process was changed reducing the delay to five days. This 16 day gain resulted in an annual interest savings to the Treasury of $51,000.

Effective October 1, 1978, FSQS also changed its procedures for processing the collection of about $18.9 million in receipts. These collections were received at Agriculture Marketing Service more than two months after the billing date. With the transfer of collection to the National Finance Center, a better control system is available to ensure that payments are received within 30 days of billing. The result will be a 30 day gain in available funds to the Treasury for annual interest savings of more than $137.0 thousand.

b. Other FSQS Collections

By changing the collection process for receipts for poultry, fruit and vegetable quality services, FSQS will eliminate an average of 1.7 to 3.1 days of mail time. Based on expected cash flow of $30.6 million, this will yield an annual interest savings of more than $19.0 thousand.

c. Local Depositories

To further improve the timing of cash inflow, FSQS will consider using local commercial banks for depositing $30.6 million in receipts. If this concept works, it will generate additional interest savings of about $29.6 thousand.

F. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Mortgage Insurance Program

As of February 1976, GAO reported $20.0 million in delinquent FHA insurance premiums. GAO reported that HUD did not identify delinquent premium accounts until at least

50 days after the due date and recommended that HUD take appropriate action after 15 days in accordance with industry practice.

Subsequently, HUD changed its system to send delinquent notices within two weeks after processing each monthly inventory of premium receivables. Past due notices are also sent to mortgagees within 20 days after the due date. As a result, the delinquencies have been reduced from $20.0 million to $5.0 million as of September 1978. This reduction of $14.1 million in delinquencies results in annual interest savings of $860.0 thousand.

Other Initiatives

HUD is also initiating action to (1) ensure that proceeds from the sale of acquired properties are deposited promptly; (2) collect insurance premiums on an annual basis at the beginning of the premium year instead of the end; and (3) review the annual settlement process for debt service and leased housing contributions to determine timeliness of report and settlement. Savings from these initiatives are not quantifiable at this time.

G. DEPARTMENT OF THE INTERIOR (DOI)

1. Bureau of Land Management

The Bureau has changed its procedure for depositing the 20% bid deposit checks for Outer Continental Shelf lease sales. The old practice had been to deposit these checks when accepting high bid offers. Since the October 27, 1977 sale, the new practice is to submit the results of the sale to the Department of Justice and the Federal Trade Commission for a review of possible anti-trust violations by bidders. The Department of Interior allows at least two weeks to elapse from the time the bids are opened to the acceptance of the high bids for completing the anti-trust review.

The change implemented with the sales of March 28, 1978 and April 25, 1978, called for depositing the checks as soon as possible (normally one day from the date of the bid openings). Bids not accepted are subsequently refunded. For the March and April 1978 sales, the earlier deposit of over $165.0 million in 20% bid deposit checks resulted in an interest savings to Treasury of more than $335.0 thousand.

Based on the remainder of CY 1978, additional interest gained by this 13 day acceleration resulted in savings of approximately $275.0 thousand.

The Bureau also agreed to require the delivery on the due date of the 80 percent balance on OCS leases in funds immediately available to the U.S. Government. Based on the six lease sales which occurred prior to completion of the review in Interior totalling more than $3 billion, the average float time was almost 1.4 days. Eliminating this float for the 80% balance of more than $520.0 million for 1979 will result in an annual interest savings of about $122.0 thousand.

The Bureau also agreed to change its procedures for billing, collecting and depositing timber sale receipts. These changes will expedite the flow of more than $235.0 million in receipts by about 1.3 days, resulting in annual interest savings of about $50.0 thousand.

2. Geological Survey

a. Saudi Arabia Cooperation Program

The Geological Survey provides services to the Saudi Arabian Government with annual advances required for payment of services. Any monies prepaid but not used in one year are automatically credited to the next year.

Payment is now made by check to the U.S. Embassy in Saudi Arabia and, in turn, given to the Geological Survey team on site for forwarding to headquarters in Reston, Virginia. The elapsed time from check date to deposit has averaged about 56.7 days for the last two years. The Survey is exploring with Treasury using TFCS for future payments through the Saudi Arabian account with a commercial bank in New York. With TFCS, the annual interest savings to the Treasury will be $105.8 thousand, $165.4 thousand and $219.0 thousand over the next three years, respectively, on payments of $11.0 million, $17.2 million, and $22.8 million.

b. Rent and Royalty Receipts

A sampling of rent and royalty receipts collected by the Metairie, Roswell and Casper offices indicated that on the average, almost $1.2 billion was received about 1.8 days late. This results in an interest loss to the Treasury of about $355.0 thousand. Steps are being taken to assure the timely receipt of these monies.

c. Other Receipts

Of approximately $153.0 million collected at the Casper office, almost $119.0 million was deposited on the average of 1.4 days after receipt. Depositing of these receipts on the same day would yield an annual interest savings of approximately $28.0 thousand. The Casper office will install a remote terminal that will mechanize the processing and bring about more rapid deposit of these receipts.

Receipts in Roswell and Casper are mailed to the Federal Reserve banks in El Paso and Denver, respectively. This delays availability to the Treasury of almost $273.0 million in funds at an annual interest cost of about $92.7 thousand. The Geological Survey is considering using local depositories for these monies.

Finally, the Geological Survey is working out an arrangement with Treasury for using TFCS to wire transfer collections from companies paying over $400.0 thousand monthly. The annual interest savings on the $176.7 million of such receipts would be approximately $89.8 thousand.

d. Reston Headquarters

The Reston office received approximately $70.0 million in FY 1977, ranging from reimbursements for vendor overpayments to payments by states for cooperative projects. All such receipts are processed in Reston before being mailed to the Federal Reserve Bank in Richmond for deposit.

A sampling of 20% of the checks received during the period March-May 1978 showed a 3-day delay from time of receipt in the mailroom to preparation of the deposit, with another two days elapsing until the Federal Reserve Bank credits the funds to Treasury. Four days of this delay will be eliminated by using a local depository in Washington and streamlining the internal processing to provide for deposit on date of receipt. This will produce annual interest savings of $47.4 thousand to the Treasury.

H. VETERANS ADMINISTRATION (VA)

1. New Data Processing Equipment

New equipment installed at the VA Data Processing Centers in Philadelphia and St. Paul substantially improved the collection of insurance premiums in reducing by one day the receipt/deposit functions. This time savings has an annual interest savings value of $149.0 thousand for FY 1978 and $163.0 thousand per year thereafter, provided premiums and administrative costs remain at their present levels.

2. Lock-Boxes

The Austin Data Processing Center is researching the possibility of establishing a lock-box arrangement with a Dallas bank. As currently proposed, this lock-box would result in most of the VA home loan receipts being deposited at least 4 days sooner than at present, with an annual interest savings of over $200.0 thousand. The cost of the lock-box is estimated at approximately $126.0 thousand, leaving a net annual savings of $74.0 thousand.

3. Loan Sales Receipts

As of April 1978, all 47 continental VA stations selling vendee loans request the private purchaser to wire transfer sale receipts to the New York Federal Reserve Bank. This wire funds transfer advances the availability of funds by at least two days. The interest savings were at least $65.0 thousand for FY 1978 and will be approximately $105.0 thousand per year thereafter, assuming the volume of loan sales remains at the present level.

I. FEDERAL HOME LOAN BANK BOARD (FHLBB)

1. Processing Federal Savings and Loan Insurance Corporation (FSLIC) Assessments

The FHLBB is planning to initiate a change in processing FSLIC assessments. These assessments come to the Bank Board by check from FSLIC and are deposited the same day into the FHLBB's Treasury account at a Washington bank. Due to the bank's agreement with Treasury to provide one-day availability of funds, this delayed funds available to the Treasury. By using the Treasury accounting procedure for interagency transactions, the FSLIC assessment is now immediately credited to FHLBB's account at Treasury by means of accounting entries. This change not only eliminates the administrative cost of processing checks, but also saves $3.5 thousand in annual interest charges by eliminating the one-day delay in receipt of funds of $20.8 million.

The FHLBB is also planning to explore transferring to FSLIC the processing of examination fees and of assessments from savings and loan associations (S&L's'). Since FSLIC already processes insurance premium receipts from S&L's,this measure will entirely eliminate the cost to FHLBB for processing these items. FSLIC'S processing cost will be comparatively lower if some of these fees from S&L's are consolidated.

2. Processing S&L Assessments

Another measure will accelerate the processing and deposit of the S&L assessments and examiniation fees. Under the old FHLBB procedures, incoming checks, most of which arrive by 11:00 a.m., were not deposited until the following day. Now all checks received at FHLBB in the morning will be deposited that day, along with checks received on the afternoon of the previous day. This will save about $1.6 thousand in annual interest costs by accelerating the deposit of $9.6 million in receipts.

3. Converting S&L Insurance Premium Receipts To TFCS

FHLBB is considering converting the cash flow for all S&L receipts from assessments and examination fees to TFCS. The TFCS payment would be made through the 12 district banks which maintain accounts for all the S&L's. Since the TFCS method produces "immediately available" funds and will eliminate the 3-day check processing time, the government will gain 3-day's use of $16.0 million. As a result, FHLBB will save the government $8.1 thousand in annual interest costs.

J. FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC)

S&L Insurance Premium Receipts

FSLIC is assessing the feasibility of converting all S&L insurance premium receipts from checks to TFCS. The TFCS payment would be made through the 12 district banks. This will gain 3-day's use of $207.4 million in annual insurance premiums. As a result, the FSLIC will save $105.4 thousand in annual interest.

K. FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

Since 1976, FDIC has converted all collections from notes receivable and most liquidation collections from checks to TFCS. The FDIC also stipulates in its loan agreements that all remittances be made in immediately-available funds. As a result, the FDIC has saved $458.7 thousand in annual interest.

FDIC also expects to convert all bank assessments from checks to TFCS. The FDIC could save $284.7 thousand in annual interest by putting all bank assessments on the TFCS.

L. GENERAL SERVICES ADMINISTRATION (GSA)

1. Sale of Stockpile Materials

On June 2, 1978, the GSA's Federal Preparedness Agency took action to improve the flow of cash from the sale of stockpile materials. First, payments are now made by TFCS. This accelerated the proceeds to the Treasury by about nine days. Further steps accelerated the billing to purchasers of these materials from 23 days to 2 days, for a net gain of 21 days in the flow of funds to the Treasury. FY 1978 interest savings are estimated to be $302.0 thousand and FY 1979 savings are expected to total $408.0 thousand.

2. Gold Sales

GSA began using wire funds transfer (TFCS) from the private sector to the Treasury for gold sales. This procedure places the availability of funds to Treasury at least three days earlier than methods utilized previously. TFCS will also be used on all future gold sales. This will result in interest savings of some $152.0 thousand on the anticipated $300.0 million in gold sales in 1978.

(Since the 1978 study, proceeds from gold sales have increased much more than originally anticipated. Gold sale proceeds collected by wire transfer during FY 1979 totaled $2.8 billion. At the standard 6.1% interest rate used in this report, interest savings for FY 1979 amounted to $1.4 million.)

M. TENNESSEE VALLEY AUTHORITY

1. Customer Receipts

TVA wholesales to 160 local municipal and cooperative electric systems, 50 industrial corporations and 10 other Federal agencies. TVA generally collects its receipts on time, due primarily to the threat of a 1% per month penalty assessed if payment is even only one day late. However, TFCS use would considerably improve the flow of receipts.

For example, sales to the four largest power customers amount to about $500.0 million annually. Eliminating the mail, processing and check clearance time of about 3 days would result in an annual interest savings of about $300.0 thousand. TVA is encouraging voluntary use of TFCS by most of its customers and is considering a TFCS payment provision in all future contracts.

N. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE 1/

1. Deposit of Social Security Contributions by States

The Social Security Administration, with the support of the Office of Management and Budget, published new regulations on November 20, 1978 to change the frequency of the deposits by States from quarterly to monthly. The regulations cannot take effect by law until July 1, 1980. The increased frequency of deposits will result in a substantial increase in interest income to the Social Security Trust Funds. The GAO report "Federal Deposit Requirements of States' Social Security Contributions Adversely Affected Trust Funds" (December 18, 1978) estimated the increase due to the change in regulations at $150.3 million in 1980, $180.5 million in 1981 and $198.2 million in 1982.

1/ Now the Department of Health and Human Services

CHAPTER III. CONTROLLING DISBURSEMENTS

Good cash management means paying bills on time - not early or late. In spite of the conventional wisdom that the Federal government is a tardy bill payer, a recent GAO study of bill paying throughout the government disclosed that far too many government bills are paid early while a smaller number are paid late. For a 6-month period, GAO found that the Federal government lost $118.0 million in interest by paying bills too early, while the private sector experienced $30.0 million in interest costs because we paid bills too late.

To correct these problems and others related to the premature disbursement of Federal funds, joint Project/agency cash management efforts have instituted many improvements. Estimated savings from all disbursement improvements should exceed $144.5 million per year. The remainder of this chapter describes in detail these initiatives.

A. TREASURY DEPARTMENT

1. Letters of Credit

Treasury is aggressively expanding the use of letters of credit throughout the Executive Branch. Qualified funding under the following programs has recently been converted to the letter-of-credit method: (1) State Survey Agency Operations; (2) the Equal Employment Opportunity Commission; (3) the Department of Labor's Mine Safety and Health Administration; and (4) the Department of Agriculture's Forest Service and Food Safety and Quality Service. In addition, the Department of Education is completing conversion of its Emergency School Assistance Program to letters of credit.

Other programs are also being converted to the letter-of-credit disbursing system. These programs include: the Economic Development Administration's Title 9 Program; Economic Adjustment Assistance Program; the National Endowment for the Humanities; and the Department of Transportation's Urban Mass Transportation Administration.

There are two additional programs that will convert to letters of credit in the near future. The National Endowment for the Arts is converting qualified funding under its programs. The Department of Housing and Urban Development is planning to convert qualified funding under its Low Rent Program to letters of credit.

The FY 1978 funding level of all these programs is more than $13 billion so that a 15 day increase in availability of funds could possibly yield as much as $32.5 million in interest savings.

It should also be noted that for FY 1978, Legal Services Corporation converted $205 million from lump sum payments to letter of credit. Estimated annual interest savings will be $521.1 thousand.

2. <u>ACTION Use of Letters of Credit</u>

ACTION is converting qualified funding to letters of credit. The first ACTION letter of credit was issued in May 1978 with conversion of other qualified funding to take place during FY 1979. A total of approximately $20.0 million in annual funding is involved. This conversion is estimated to result in annual recurring savings of $150.0 thousand.

3. <u>Economic Development Administration (EDA)</u>

Treasury persuaded EDA to fund an 18 month $2.0 billion project by letter of credit, rather than front-ending it as originally proposed. EDA had planned to advance 50% and 40% at the beginning of the project and at the start of the second nine-month period, respectively. The final 10% would be paid at completion. By using a letter of credit, the average monthly increase in available cash to the Treasury was more than $760.0 million for the twelve-month period ended January 31, 1978. The annual interest savings amounted to about $46.4 million for that period.

The $2.0 billion project ran for 18 months, and required an additional $4 billion to continue it. Savings continued to accrue in subsequent periods on the balances of the initial $2.0 billion and the additional $4.0 billion.

Funds available to the Treasury will be $719.0 million greater. The resulting interest savings is $43.9 million and for the following twelve months, average monthly funds available will be $522.2 million greater with interest savings of $31.9 million.

B. DEPARTMENT OF DEFENSE (DOD)

1. Disbursements

Effective October 1, 1978, a new procedure was implemented requiring DOD units to issue and mail checks so that the payee receives them as close as possible to the due date. This procedural change is expected to yield annual interest savings of $29.8 million on payments of $15.1 billion, based on an extrapolation of a GAO sample of DOD payment centers.

2. Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS)

OCHAMPUS is testing a delayed deposit procedure with one large-dollar-volume contractor to reduce the bank float between the time the contractor writes the checks to pay claims and the time the checks clear the bank. Experience has shown this time to be a minimum of 5 days. OCHAMPUS targeted full implementation of a delayed deposit procedure for April, 1979. The OCHAMPUS expenditures were about $575.0 million in FY 1977. With a 5-day reduction in float time, this could yield annual interest savings of more than $487.0 thousand.

C. DEPARTMENT OF ENERGY (DOE)

1. Payments to Vendors and Contractors

A sampling of invoices showed DOE integrated contractors to be paying invoices an average of 18.16 days early on $228.7 million of payments. This was costing the Treasury $704.9 thousand annually. Payments of $1.4 billion to DOE vendors and other contractors were paid on the average of 11.33 days early at an annual interest cost of $2.6 million. DOE has issued a directive that invoices are to be paid on the due date which will eliminate these interest losses to Treasury.

2. Letters of Credit

A review of the Regional Disbursing Office (RDO) letter-of-credit operations indicated excess daily cash balances of approximately $1.3 million being maintained by DOE grant recipients, resulting in an annual interest cost of $81.0 thousand. DOE is now monitoring these cash balances closely, using the Daily Status of Federal Funds reports.

A recent GAO report also identified $1.8 million in excess funds in the hands of DOE contractors. On an annual basis, these deposits cost $110.0 thousand in interest. DOE is refining their system, with support from Treasury, to eliminate these excesses.

D. DEPARTMENT OF AGRICULTURE

1. National Finance Center (NFC)

The NFC makes commercial payments on the average of seven days after receipt, or almost twelve days from the date on the invoice. The vendor receives the payment about eighteen days after the invoice issue date or the delivery of the goods, whichever is later.

NFC is considering paying invoices of $180 million closer to the 30 day due date. This proposal would allow the vendor to receive his monies by the 30th day, and give Treasury the use of the $180.0 million for an additional twelve days. The interest savings from this change is estimated to exceed $360.0 thousand.

2. Food and Nutrition Service (FNS)

On June 15, 1977, the State of California and FNS started a pilot system for using TFCS for drawdowns under child nutrition program grants. The State's drawdown request is telecopied to FNS headquarters instead of going by mail to a Treasury Regional Disbursing Office (RDO). After approval by FNS, funds are transferred to the State's bank by TFCS.

Previously, the average daily balance of Federal cash held by the State agencies was $2.8 million. By May 1978, this had declined substantially to about $145.0 thousand, indicating that the State is holding Federal cash for shorter periods. At this rate, therefore, about $165.0 thousand in interest was saved in FY 1978.

If expanded to include all FNS grant programs nationally (and if the California results are representative), this system could produce annual interest savings of $7.8 million.

3. Forest Service

In October, 1977, the Forest Service converted seven of its grant recipients from a monthly advance payment method of financing to letters of credit. The conversion reduced estimated average balances held by the recipients by $625.0 thousand. The resultant interest savings to the Treasury are estimated at $38.1 thousand annually.

4. Farmers Home Administration (FmHA)

The FmHA Loan Disbursement System (LDS) was implemented in January 1977. Under this system county supervisors request checks for disbursement on loans and grants as the funds are needed. Previously, construction loans were fully funded before beginning construction by placing the entire amount of the loan in supervised commercial bank accounts. Subsequent disbursements were made from those accounts as required.

LDS has delayed the premature disbursement of funds, saving interest of $43.0 million per year, of which past experience showed that $28.2 million would have been paid by the borrowers and $14.8 million would have accrued to the government.

5. Food Safety and Quality Service (FSQS)

Effective October 1, 1977, FSQS converted its grant program from the advance payment method to letters of credit. By comparing the cash flow before and after conversion, FSQS calculated interest savings of $212.5 thousand during FY 1978.

E. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

In a 1976 report on HUD owned properties, GAO found HUD chronically late in processing tax bills and making tax payments. This resulted in exorbitant penalties and even loss of some properties for nonpayment.

HUD installed a new system in 1977 to minimize these late payments. For the period January-August 1978, 7,165 delinquent tax bills were paid with penalties amounting to $147.8 thousand vs. 11,496 delinquent tax bills with penalties of $519.4 thousand for the same period of 1977. Further, in the first six months of 1978, only six properties were lost because of tax sales vs. 50 in the same period of 1977.

HUD is also initiating action to (1) control disbursements more closely for the Section 312 Rehabilitation Loan Program to ensure that disbursements are made only to meet immediate cash needs; (2) schedule bill paying so that payments are effected on the due date, not early or late, as prescribed in Treasury and OMB regulations; (3) review cash held by grantees to determine if excessive; (4) conduct an in-depth review of practices in monitoring letter-of-credit operations; and (5) tighten management of travel advances. The savings attributable to these initiatives are not quantifiable at this time.

F. DEPARTMENT OF THE INTERIOR

1. Bureau of Reclamation

A sampling of payments made to vendors and contractors by the offices in Boulder City, Sacramento, and Billings indicated that payments were being made on the average 16 3/4 days in advance of the due date. For the almost $210.0 million paid from these offices, the annual interest cost to the Treasury of the early payments amounts to about $600.0 thousand. A new procedure requires suspensing these payments to correspond with the due date.

2. National Petroleum Reserves

The Geological Survey currently provides special handling of invoices from a private contractor, with payments made nearly 18 days earlier than normal business practices. This early payment practice cost $460.5 thousand in interest to the Treasury in FY 1978 on payments of $151.0 million. The Survey will now follow normal practice and require payment on the due date.

3. Fish and Wildlife Service

Payments to vendors and contractors were being paid on the average of 8 days before the due date. This cost Treasury annual interest of $101.9 thousand. A procedure to provide for suspensing of the bills until the due date is now being implemented.

G. DEPARTMENT OF TRANSPORTATION (DOT)

The Project found no significant need to improve cash management practices in DOT. A number of steps, however, will allow DOT to provide better service to the public. For example, DOT has decided to use the letter-of-credit system of disbursements in the Urban Mass Transportation Administration and the Federal Aviation Administration. This will overcome the problem of tardy payments to grantees that has plagued disbursements in both agencies.

H. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE (HEW) 1/

1. Bill Paying

A statistical sampling was made of the Department's ten major payment offices, accounting for four-fifths of the $1.2 billion in annual contract and purchase order payments. The study found that most payments were made before the due date at an annual interest cost to the Treasury of about $2.8 million. However, there were also some late payments that resulted in an interest gain of $1.5 million.

The net interest loss, therefore, totalled about $1.3 million, resulting from the $1.2 billion being paid 6 1/4 days before due. The Department is in the process of implementing Treasury regulations which stipulate that payment be made on the due date.

2. Check Cycling

The Social Security Administration has agreed to adopt cyclical mailing of social security benefit checks for new beneficiaries coming on the rolls in 1981. While unquantifiable, this action will yield substantial savings to the Treasury and will smooth cash flow and work load levels in financial markets, the banking community, the Postal Service and the economy as a whole.

1/ Now the Department of Health and Human Services

3. Health Care Financing Administration

Since 1975, Treasury has been assisting the Health Care Financing Administration to convert its grant disbursements to the checks paid letter-of-credit method. From February 1, 1977 through January 31, 1978, new conversions resulted in reductions in holdings of Federal funds by grantees totalling $20.0 million. The estimated reduction in cost to the government during that year was $420.7 thousand. Annual interest savings from these conversions are estimated to total $1.2 million.

4. Public Assistance

HEW is proposing to use checks paid letters of credit for Public Assistance programs. Starting in 1980 with the ten states that receive the largest amounts of assistance, the change would be phased in by the end of 1983. This conversion will produce interest savings of $1 million in 1980 and about $35 million annually each year thereafter.

I. VETERANS ADMINISTRATION (VA)

Timely Payment of Invoices

The VA's "money management" policy of paying eligible invoices when due has saved over $500.0 thousand a year in interest. In addition, the Austin Data Processing Center centralized "remit to" procedures to summarize up to 9 invoices on one check resulting in administrative savings (postage, label, etc.) of approximately $544.0 thousand.

J. GENERAL SERVICES ADMINISTRATION (GSA)

Payment of Vendors' Invoices

A statistical sample of more than 3,600 payments made from October 1977 through March 31, 1978 indicated that about 75% of the payments (representing almost 82% of the dollars) were paid 6 to 30 days before the due date. This is in contrast with 10% of the payments (representing about 4% of the dollars) which were paid after the due date. The remaining 15% of the payments (14% of the dollars) were paid on the due date.

Extrapolating the sample results to the entire $3.0 billion in annual payments made by GSA, almost $2.5 billion in payments are paid early while $132.0 million are paid late. The early payments cost the Treasury $7.4 million in additional interest, while the late payments cost the vendors $.4 million in interest. The net savings to the government of paying vendors on the due date will be $7.0 million annually.

GSA is "fine tuning" the automatic payment system and its various subsystems to provide that payment be made on the due date.

CHAPTER IV. REDUCING IDLE BALANCES

Good cash management also means keeping idle cash balances at the absolute minimum. Excess cash balances cost the government money, either in unnecessary interest paid to raise cash through borrowing, or from interest lost by not having the cash on deposit in an interest bearing account.

Project teams have identified many opportunities to reduce idle cash balances throughout the government. The interest to be earned as a result of these improvements should exceed $95.7 million a year. This chapter describes these initiatives in detail.

A. TREASURY DEPARTMENT

1. Treasury Tax and Loan Investment Program

Approximately 70% of all government tax receipts are paid through Treasury tax and loan accounts with commercial banks. These taxes are then transferred as needed to the Treasury accounts at Federal Reserve banks and branches to finance the government's operations. This system is an efficient and economic tax collection system that minimizes the impact of the government's financial activities on local banks.

As account balances and interest rates increased in the early 1970's, the value of these balances to the commercial banks began to exceed the banks' cost of handling these accounts. Accordingly, Treasury moved most of its excess operating cash to the Federal Reserve banks where increased Federal Reserve profits were generated and paid over to Treasury. Also, Treasury sponsored legislation allowing it both to earn interest on its cash balances in depositories maintaining tax and loan accounts and to pay handling fees to the financial institutions.

In October 1977, President Carter signed Public Law 94-147 which gave Treasury the authority to earn a return on its operating cash by investing such cash in obligations of depositories maintaining tax and loan accounts. Final regulations implementing that authority were put into effect in November 1978 and will generate earnings of approximately $75 million annually.

(In the first twelve months of operation, the investment program actually generated gross earnings of $751 million and paid fees of $26 million to depositories for accepting tax deposits--resulting in net earnings of approximately $725 million. Due to the fact that a portion of the funds currently invested in tax and loan accounts would have been deposited in income-producing accounts at the Federal Reserve banks under the former system, that amount does not represent net new money to the Treasury. Treasury estimates that the Program generates net new money of between $100 million and $200 million annually.)

B. DEPARTMENT OF DEFENSE (DOD)

Cash Held Outside Treasury

There are detailed regulations prescribed by both Treasury and DOD on computing acceptable levels of cash holdings outside the Treasury. Reviews of these holdings by the Air Force Accounting and Finance Center between February and June 1978 resulted in a reduction of more than $5.0 million in cash authorizations. The Army also reduced the cash held by its Central Finance and Accounting Office, Europe, by $5.0 million on October 31, 1978. Future annual interest savings on these $10.0 million reductions will be $623.2 thousand.

C. DEPARTMENT OF AGRICULTURE

National Finance Center (NFC)

In the second half of CY 1977, the NFC updated its procedures for monitoring outstanding travel advances held by its employees. The revised procedure reduced the number of times a supervisor could certify the traveler's need for an advance by allowing certification for only one cycle. In a subsequent cycle, the traveler must repay excessive advances, or submit vouchers supporting these. Otherwise, the amount is deducted from salary due the employee. This new procedure has reduced the outstanding travel advances by $450.0 thousand with annual interest savings of more than $27.0 thousand.

D. DEPARTMENT OF TRANSPORTATION

Federal Highway Administration (FHWA)

FHWA reimburses the states for progress payments made to contractors, including the amounts withheld by states as "retainage" to assure satisfactory completion of the contract.

Information from 39 of the 52 FHWA grantees showed the average amount of Federal funds held in retainages for FY 1977 to be $209.0 million. Transferring these funds to states before they had to be disbursed to contractors resulted in lost interest of $12.7 million. As required in the revision to OMB Circular A-102, FHWA policy will be changed to conform to Administration policy. 1/

E. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE (HEW) 2/

Departmental Federal Assistance Financing System (DFAFS)

DFAFS is the central disbursing center for approximately 200,000 HEW awards to more than 16,000 recipients. These disbursements amounted to more than $28.0 billion in FY 1978. GAO reviewed DFAFS disbursements dating back to 1976. Based on a statistically selected sample of 230 recipients, they estimated excess cash in the hands of recipients at $249.0 million. DFAFS later replicated the original GAO sample, (except for on-site review of recipient records) and projected excess cash at $58.7 million for non-Public Assistance recipients and $34.3 million for Public Assistance recipients. This was a total of $93.0 million for the period ending March 31, 1978, as compared to the $249.0 million GAO found in 1976.

The apparent improvement may be due to several factors: (1) the 230 recipients sampled both times have become more conscious of their Federal cash balances since the GAO review; (2) the recipients may be under-reporting their true cash balances; (3) organizational and operational changes made in DFAFS since 1976.

Assuming that the $93.0 million figure is accurate, eliminating these balances through additional improvements planned in DFAFS will result in annual interest savings of $5.7 million. Improvements will include: (1) expanding the recipient information reported at the time of drawdown (2) working with Treasury to streamline the flow of information and increase the frequency of reporting; (3) reviewing

1/ The Office of Management and Budget has recently revised Circular A-102 to explicitly state that grantees shall not be reimbursed with Federal funds for retainages that have not been paid. Rather, when final payment (including retainages) is due, Federal funds to cover the retainage may be transferred to the grantee.

2/ Now the Department of Health and Human Services

grantees, financial stability and accounting procedures; and (4) implementing an immediate access system for program offices to monitor cash balances.

DFAFS has also identified $17.6 million of unspent cash in the hands of recipients after the grants were completed. Another $8.8 million cash is held by grantees who obtained advances on awards subsequently deobligated by the program offices. HEW is in the process of recovering this $26.4 million at the direction of OMB. The annual interest on the $26.4 million is $1.6 million.

CHAPTER V. CASH MANAGEMENT TAX INITIATIVES

SCOPE OF TAX INITIATIVES

As a part of the cash management effort, the Project developed a plan to accelerate the flow of tax revenues from corporations and from individuals who are required to make estimated payments by selectively reducing tax deferral periods, increasing payment frequencies, and raising the amount due when periodic estimated payments are required. This plan, when fully implemented, will save the government over $695 million each year in interest costs and will provide a one-time bookkeeping acceleration in tax revenues of over $10 billion. The plan does not affect legal tax rates or tax bases and most of the proposals can be accomplished administratively through regulation changes. The plan also includes a number of proposals to ease the deposit and paperwork requirements for small businesses. Details of this plan were first outlined in the President's FY 1980 budget and are again addressed in his FY 1981 budget.

Payments of liabilities in our tax system are generally made on a pay-as-you-go basis. Payment schedules for most types of taxes provide for periodic deposit of liabilities and ordinarily do not delay the payment of taxes until the filing of a final tax return. Historically, the trend has been to accelerate the frequency of tax payments, placing tax payments on a more current basis. Decisions to accelerate payments were usually prompted by a number of things. These included the need to better utilize government resources, to capture the cash management and budget advantages of such accelerations, to reduce the amount of outstanding tax liabilities for compliance purposes, and to improve the general effectiveness of our pay-as-you-go tax system. Consideration was always given to the additional administrative costs to both taxpayers and the government of more frequent deposits.

The Cash Management Project, with the help of the Internal Revenue Service and Treasury's Office of Tax Policy, identified a number of areas in which the tax payment cycles need to be revised in order to:

(1) Require some taxpayers to make income tax payments closer to the time when the liabilities occur because of rapidly increasing flows of tax revenues and outstanding liabilities, and

(2) Reduce the deposit frequency for taxpayers with relatively small liabilities in order to reduce the deposit and paperwork burden for both small business and the government.

The areas for potential improvement include the following:

(1) Employer deposits of withholding taxes
(2) Corporation income tax payments
(3) Individuals' payments of estimated taxes
(4) Tobacco excise taxes

EMPLOYER DEPOSITS OF WITHHOLDING TAXES

Based on current regulations, the times at which withheld income and FICA taxes must be paid depend on the amount of such taxes accumulated by the employer. The larger the amount of accumulated tax liability, the sooner the taxes must be paid. The changes proposed include the following:

-- Require more frequent deposits by employers with large liabilities.

-- Require employers with medium size tax liabilities to deposit closer to the time the liabilities occur.

-- Give relief to an estimated half million very small employers by allowing them to pay their liabilities when they submit their quarterly tax reports.

-- Change the procedures by which employers determine the required payment frequency so that employers will know the dates of required deposits at the beginning of each calendar quarter.

-- Reduce the "safe haven" allowed larger employers from 10% to 5% while at the same time allowing employers with medium size liabilities a 5% "safe haven" to help compensate for the proposed acceleration in their payment cycle.

These changes will net the government approximately $206 million a year in interest savings.

CORPORATION INCOME TAX PAYMENTS

Under current law, corporations are generally required to make estimated tax payments four times a year with the remainder of their tax liability due in two equal installments after the close of their tax year. The first installment is due 75 days after the end of their tax year and the second installment is due 165 days after the end of their tax year. Corporations have a number of options available for computing the amounts due when estimated payments are required.

The proposed changes include the following:

-- Raise the required level of estimated tax payments from 80 percent to 85 percent when corporations base their payments on estimated current year liabilities.

-- Modify the option that allows corporations to make estimated payments on the basis of the prior year's tax liability so that corporations will be required to make estimated payments that are at least 60 percent of current year liabilities, regardless of the prior year's liability.

-- Require full payment of the remaining liability in a single final payment 75 days following the end of the tax year.

-- Change the due dates for estimated payments so that they coincide with Treasury cash needs which are the heaviest at the beginning of each month.

-- Increase the minimum requirements for estimated tax payments from $40 to a higher level of estimated annual tax liability.

These proposals will save the government approximately $460 million a year in interest when fully implemented.

INDIVIDUAL PAYMENTS OF ESTIMATED TAXES

Under current law, certain individuals are required to make estimated tax payments. Generally, these are individuals whose major sources of income are not subject to withholding. These individuals are required to make estimated payments 4 times a year. Generally, there is no penalty as long as estimated tax payments plus withheld taxes exceed 80 percent of tax liabilities shown on the tax return.

The proposed changes which will result in $18 million in annual interest savings include the following:

--Increase the minimum percentage of liabilities to be met by withheld and estimated payments from 80 percent to 85 percent.

--Increase the minimum requirements for estimated tax payments from $100 to a higher level of undeposited tax liability.

TOBACCO EXCISE TAXES

The Cash Management Project also proposed that the collection of tobacco excise taxes from larger manufacturers be accelerated. These taxes are currently due 15 days after each semi-monthly period during which the taxes are accumulated for tax reporting and payment purposes. The Project proposed that these taxes be accumulated on a weekly basis and paid over 3 days after the end of each weekly period, saving an estimated $12 million a year.

CHAPTER VI. ENSURING STRONG CASH MANAGEMENT

There has been little incentive in the Federal government for program and financial managers to practice cash management. Managers, in general, received no rewards or penalties as a consequence of the way they manage collections and disbursements. With few exceptions, agencies and departments experience no direct cost or benefit related to the cash flows they handle. This absence of incentives for managers has tended to result in a lack of attention to managing cash flows, including a low priority for developing modern cash management systems, practices, and techniques.

The Federal government has taken a number of steps to compensate for this lack of incentive within the agencies. Many of these steps were initiated or supported by the Cash Management Project. Following is a summary of these steps.

A. ISSUANCE OF GOVERNMENT-WIDE CIRCULARS AND REGULATIONS ON CASH MANAGEMENT

1. Treasury Department Circular 1084-Regulations Governing Cash Management Practices Within The Federal Government

With the issuance of Department Circular 1084 in December 1976, Treasury brought together in one document specific policy guidelines that cover most of the key elements of Federal cash management. This Circular stands as an umbrella document for agencies to use as a guide for conducting their financial business. It establishes the policy regarding cash management practices within the Federal government relating to the development of internal agency regulations, systems and procedures. This Circular also reiterates the Treasury policy contained in Circular 1075 on advance financing of Federal grant and other programs.

2. Treasury Fiscal Requirements Manual - Chapter 8000, Cash Management

This chapter of the Treasury Fiscal Requirements Manual was issued in May 1978 and prescribes the procedures to be followed by agencies and departments in implementing the cash management policies contained in Treasury Circular 1084. This Chapter details the procedures to be followed by agencies in their billing and collection activities, deposit functions, and disbursement activities. These procedures also call attention to the time value of money and emphasize the need to maximize the amount of cash available to Treasury, thereby precluding unnecessary borrowings by the Treasury and resultant interest costs.

3. Federal Bill Paying Practices - OMB Memorandum For The Heads Of Executive Departments And Agencies

In July 1978, the Director of the Office of Management and Budget directed all government agencies to take the following steps to strengthen their bill paying practices: (1) include specific payment terms in contracts and purchase orders; (2) ensure that payments are scheduled to coincide with due dates; and (3) observe the procedures for controlling the timeliness of disbursements outlined in the Treasury Fiscal Requirements Manual.

B. INDIVIDUAL INCENTIVES

In the past, cash management has not received much high-level attention in the departments and agencies outside of Treasury. As a result, few awards were made to individuals displaying excellence in this field, even though various certificates, letters of commendation, cash awards and quality step increases could have been used for this purpose. The focus has now changed. Greater attention is being paid to cash management throughout the entire Federal sector. The 1978 Joint Financial Management Improvement Program (JFMIP) annual award for financial achievement went to William M. Henderson for his contribution to the improvement of Federal cash management. With the advent of the Civil Service Reform Act in 1978, new avenues are now open to rewarding individual performance. We expect that these will be used and that performance standards for cash management will be an integral part of the bonus pay program for the Senior Executive Service and merit pay program for middle managers. These management tools will be essential in institutionalizing sound cash management practices in the agencies.

C. INSPECTOR GENERAL RESPONSIBILITIES

On October 12, 1978, the President signed a bill creating Offices of Inspectors General (IG) in 12 Federal departments and agencies. The Inspectors General will be responsible for searching out fraud, waste and inefficiency in agency programs. They will oversee and conduct audits and investigations where necessary.

In developing the charters for the Inspectors General, the Office of Management and Budget has taken steps to assure that cash management is a highly visible part of the program. Audit and investigative organizations in the Executive Branch until now have not given much emphasis to cash management reviews. Through the combined efforts of the Cash Management Project, GAO, and the IGs, this emphasis will change.

D. TRAINING

The amount of cash management training available has increased substantially over the last couple of years. The Joint Financial Management Improvement Program (JFMIP) and the Association of Government Accountants (AGA) have been particularly active in this regard. Also, the Office of Personnel Management has developed courses over the past two years that will be offered on a continuing basis to government employees.

Below are some specific sessions that were attended by several hundred persons in the government and many from the private sector who do business with the government.

1. The First and Second Annual Government Cash Managers Conferences were held in Washington, D.C. on December 12-14, 1978 and February 25-27, 1980 under the sponsorship of Marshall D. Sokol Associates, Inc. These conferences included speakers from both public and private sectors who had considerable experience in the field of cash management. The speakers discussed efforts by both government and private industry to improve cash management.

2. Regional Letter-of-Credit Workshops were sponsored jointly by the Treasury and JFMIP. Separate sessions were held in the ten regional cities, i.e., Boston, Atlanta, New York, Philadelphia, Chicago, Kansas City, Dallas, San Francisco and Denver over the period September 14, 1978-September 14, 1979. The workshops dealt with the evaluation of letters of credit in terms of (a) Federal program agency monitoring responsibilities; (b) the use of electronic funds transfer; (c) HEW's use of single letters of credit; and (d) preparation of the letter-of-credit drawdown voucher.

3. Cash Management Workshop conducted by JFMIP and AGA on October 18, 1978 brought together individuals from several different elements of the Federal government to discuss current cash management developments. The Office of Management and Budget presented the President's perspective on cash management and Treasury followed with a presentation on managing Federal cash. The Office of Federal Procurement Policy addressed the effect of cash management on procurement policy and the Department of Defense provided a discourse on their cash management operations.

4. Cash Management Workshop on January 16, 1978 sponsored by JFMIP and AGA provided insights into the letter-of-credit method. The Department of Agriculture and the Environmental Protection Agency discussed procedures of the Regional Disbursing Office and Federal Reserve Bank letter-of-credit systems. HEW discussed the use of consolidated payment systems and the single letter-of-credit concept.

5. Loan Systems Workshop sponsored on July 11, 1977, by JFMIP addressed basic principles and an interagency approach to the design of loan disbursement systems. Participants included officials from the Veterans Administration and the Export-Import Bank.

6. JFMIP Annual Conference on February 1, 1977 included a separate session on cash management. Officials from the U.S. Postal Service, Treasury and other agencies addressed the session.

The level of participation in these sessions is encouraging. We have every reason to expect that the impetus they have provided to improving cash management practices will continue.

E. FINANCIAL PRIORITIES PROGRAM

On May 7, 1979, a comprehensive program to address major financial issues was announced by OMB. These issues selected in consultation with the Comptroller General included cash management. The program focuses special attention on this issue and on a limited number of other issues to insure continuing emphasis through the budget process, through GAO review, and through other institutional means.

APPENDIX A SUMMARY OF INITIATIVES AND SAVINGS

The following exhibits show the consolidated Project savings by agency and by initiative.

	ANNUAL SAVINGS		
Action Taken	Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
C. Department of Energy			
1. Naval Petroleum Reserves			
- Wire transfer of sales proceeds	$ 485,000,000	2.8 days	$ 230,000
- Elimination of processing delays	$ 102,820,000	1.7 days	$ 29,618
- Wire transfer of Casper Wyoming sales	$ 14,400,000	25 days	$ 61,000
2. Bonneville Power Administration			
- Revised billing procedures and conversion to TFCS	$ 180,000,000	16.85 days	$ 513,925
3. DOE department-wide receipts			
- Accelerated processing of collections from non-government sources	$ 259,200,000	1.16 days	$ 51,000
- Reduce mail float from field offices	$ 11,580,296	3.06 days	$ 6,000
- Elimination of interagency checks (exclusive of DOD)	$ 88,918,272	1 day	$ 15,066
- Elimination of checks from DOD	$ 328,150,000	1 day	$ 55,603
D. Department of State			
Agency for International Development			
- Use of TFCS	$ 200,000,000	3 day	$ 101,667

Action Taken	Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
	ANNUAL SAVINGS		
E. Department of Agriculture			
1. Accelerate ASCS receipts by using local depositories	$ 3,100,000,000	1 day	$ 525,000
2. Accelerate deposit of receipts by National Finance Center	$ 75,500,000	3 days (2)	$ 55,000
3. Conversion of Rural Electrification Administration receipts to TFCS	$ 350,000,000	2.1 days	$ 124,000
4. Farmers Home Administration			
- Accelerate processing of receipts by St. Louis Finance Center	$ 3,248,000,000	3.6 days (2)	$2,500,000 (4)
- Accelerate receipts of FmHA bv using local depositories	$ 2,724,000,000	5.5 days (2)	$3,100,000 (5)
5. Food Safety and Quality Service			
- Accelerate billing process for FSQS meat quality service	$ 18,900,000	16 days	51,000
- Accelerate processing of FSQS meat quality collections	$ 18,900,000	30 days (2)	137,000
- Accelerate processing of receipts of FSQS, poultry	$ 11,300,000	1.7 days (2)	4,600
& fruit & vegetable service	$ 19,300,000	3.1 days (2)	14,400
- Accelerate FSQS receipts by	$ 11,300,000	4 days (2)	11,000
using local depositories	$ 19,300,000	4 days (2)	18,600

Action Taken	ANNUAL SAVINGS Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
F. Department of Housing and Urban Development			
Reduction in Delinquent FHA Premiums	$ 14,100,000	360 days	$ 860,000
G. Department of Interior			
1. Bureau of Land Management			
- Accelerate processing of Outer Continental Shelf (OSC) 20% bid deposit checks	$ 291,800,000	13 days	$ 610,000
- Requiring 80% balance payment in immediately available funds	$ 520,000,000	1.38 days	$ 121,967
- Expedited billing, collection and deposit of timber sales receipts	$ 235,295,905	1.25 days	$ 50,132
2. Geological Survey-wire receipts for reimbursement of services provided to the Saudi Arabian government (FY'79)	$ 11,012,048	56.72 days	$ 105,835
(FY'80)	$ 17,204,812	56.72 days	$ 165,353
(FY'81)	$ 22,795,180	56.72 days	$ 219,082
- procedural change to ensure rental and royalty payments received when due	$ 1,182,635,000	1.77 days	$ 355,356
- prompt processing of receipts by the Casper office	$ 118,795,154	1.4 days	$ 28,181

Action Taken		ANNUAL SAVINGS: Annual Increase In Available Funds	Time Gained In Use of Funds		Interest Savings (1)
- Use of wire transfer for collections from companies paying over $400,000 monthly	$	176,652,000	3 days	$	89,798
- Reston staff to cut processing and deposit delays	$	70,000,000	4 days	$	47,444
H. Veterans Administration					
1. Improved collection of insurance premiums					
- New VA Data processing equipment in Philadelphia and St. Paul	$	687,125,874	1.4 days	$	163,000
2. Austin DPC lock-box establishment 1/	$	858,000	4 days	$	74,000 (5)
I. Federal Home Loan Bank Board					
1. Use of Treasury interagency accounting transaction for processing FSLIC assessments	$	20,755,996	1 day	$	3,517
2. Same day deposit of S&L assessments and examination fees	$	9,570,941	1 day	$	1,622

Action Taken	Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
	ANNUAL SAVINGS		
3. Possible conversion of assessments and examination fees to Treasury wire transfer	$ 15,951,570	3 days	$ 8,109
J. Federal Savings and Loan Insurance Corp.			
Study conversion of S&L assessment receipts to wire transfer	$ 207,406,344	3 days	$ 105,432
K. Federal Deposit Insurance Corporation			
Conversion of bank assessments from checks to wire transfer	$ 420,000,000	4 days	$ 284,667
L. General Services Administration			
1. Sale of stockpile materials - Accelerate receipts by using TFCS	$ 156,000,000	9 days	$ 238,000
- Accelerate the billing process	$ 48,000,000	21 days	$ 170,000
2. Accelerate receipts from gold sales by using TFCS	$ 300,000,000	3 days	$ 152,000

Action Taken	ANNUAL SAVINGS Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
M. Tennessee Valley Authority			
Encouraging voluntary usage of TFCS and looking to possible inclusion of TFCS in future contracts	$ 500,000,000	3 days	$ 300,000 (8)
N. Department of Health, Education and Welfare			
Increase in frequency of FICA deposits by states	Per GAO Report		$ 150,300,000 (1980) $ 180,500,000 (1981) $ 198,200,000 (1982)

Action Taken	Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
	ANNUAL SAVINGS		
Chapter III:			
Controlling Disbursements			
A. Treasury Department			
1. Conversion of Legal Services Corporation to letter of credit	$ 205,000,000	15 days	$ 521,042
2. Conversion of Action to letter of credit	$ 20,000,000	45 days	$ 150,000
3. Conversion of Economic Development Administration to letter of credit	$ 760,406,667 (2/1/77-1/31/78)	360 days	$ 46,384,807
	$ 718,951,111 (2/1/78-1/31/79)	360 days	$ 43,856,018
	$ 522,222,223 (2/1/79-1/31/80)	360 days	$ 31,855,556
B. Department of Defense			
1. Paying bills on due date	$ 15,128,146,036	11.6 days	$ 29,794,670
2. OCHAMPUS Delayed drawdown	$ 575,000,000	5 days	$ 487,153

Action Taken	ANNUAL SAVINGS: Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
C. Department of Energy			
1. Payments to vendors and contractors			
- Elimination of early payments by integrated contractors	$ 228,742,904	18.16 days	$ 704,900
- Elimination of early payments to vendors and other contractors	$1,352,085,384	11.33 days	$ 2,595,741
2. Letter of credit			
- Reduction in excess cash balances	$ 1,330,000	360 days	$ 81,000
- Reduction of excess federal funds with contractor	$ 1,800,000	360 days	$ 110,000
D. Department of Agriculture			
1. National Finance Center elimination of early payments to vendors	$ 180,000,000	12 days	$ 360,000
2. Conversion of FNS letter of credit to TFCS	$ 128,000,000	360 days	$ 7,800,000
3. Conversion by Forest Service to letter of credit	$ 625,000	360 days	$ 38,125

Action Taken	ANNUAL SAVINGS: Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
4. Conversion by FmHA to Loan Disbursement System	$ 705,000,000	360 days	$ 14,800,000 (9)
5. Conversion of FSQS grant program to letter of credit	BASED ON DETAILED COMPUTATIONS PER INDIVIDUAL GRANT		$ 212,500
E. Department of Housing and Urban Development			
Processing and payment of tax bills	NOT QUANTIFIED AT THIS TIME		
F. Department of the Interior			
1. Bureau of Reclamation -elimination of early payments to vendors and contractors	$ 210,000,000	16 3/4 days	$ 596,000
2. National Petroleum Reserves -elimination of early payments to the private contractor	$ 151,000,000	18 days	$ 460,549
3. Fish and Wildlife Service -elimination of early payments to vendors and contractors	$ 75,801,388	7.93 days	$ 101,852

Action Taken	ANNUAL SAVINGS Annual Increase In Available Funds	Time Gained In Use of Funds	Interest Savings (1)
G. Department of Transportation			
Letter of credit	NOT QUANTIFIED AT THIS TIME		
H. Department of Health, Education, and Welfare			
1. Paying bills on due dates	$ 1,200,000,000	6 1/4 days	$ 1,300,000
2. Check cycling by Social Security Administration	NOT QUANTIFIED AT THIS TIME		
3. Health Care Financing Administration checks paid letter of credit.	$ 20,096,434	360 days	$ 1,225,882
4. Public assistance-checks paid letter of credit	COMPUTATION PROVIDED BY HEW		$ 1,000,000 (1980) $ 35,000,000 (1981)
I. Veterans Administration			
Money management policy to pay bills on due date	$ 6,961,223	11 days	$ 500,000 (10)
J. General Services Administration			
Payment of vendors' invoices by GSA when due -- not before or after	$ 3,000,000,000	13.75 days	$ 7,000,000

Action Taken Chapter IV:	ANNUAL SAVINGS Annual Increase In Available Funds	 Time Gained In Use of Funds	 Interest Savings (1)
Reducing Idle Balances			
A. Treasury Department			
Treasury Tax and Loan Investment Program			$ 75,000,000 (11)
B. Department of Defense			
Reduction in cash held outside Treasury	$ 10,216,000	360 days	$ 623,176
C. Department of Agriculture			
Reduction in outstanding travel advances	$ 450,000	360 days	$ 27,000
D. Department of Transportation			
Elimination of premature payment of contractor retainages, subject to revision of OMB Circular A-102	$ 209,000,000	360 days	$ 12,749,000
E. Department of Health, Education, and Welfare			
- Reduction of excess cash balances	$ 93,000,000	360 days	$ 5,673,000
- Recovery of unspent cash from completed and terminated grants	$ 26,400,000	360 days	$ 1,600,000

(1) Based on 360 day year @ 6.1 %.
(2) Based on 252 working days.
(3) Net of additional bank service costs.
(4) Net of $300,000 staff costs.
(5) Net of lock box costs.
(6) Net of $33,000 interest lost on 2 sales.
(7) Interest savings of $209,252 was rounded at VA's request to $200,000 and was reduced by estimated lock box costs of $126,000.
(8) Based on 7.2% interest for the sales to four largest power customers.
(9) Based on Net Interest Savings (6.1%)less 4% borrower's Interest Note.
(10) Interest savings of $674,696.80 discounted to $500,000 to recognize that implementation will vary by station.
(11) Savings estimates range from $100 to $50 million so $75 million mid-point was used herein.

APPENDIX B. FEDERAL CASH MANAGEMENT PROJECT STAFF MEMBERS

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James T. McIntyre, Jr.
Director

John P. White
Deputy Director

W. Harrison Wellford
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Federal Cash Management Project

Executive Director

Richard E. Cavanagh
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Office of Management and Budget

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Helen Z. Rebholz
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Stability

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Rose L. Thorogood
Office of Personnel
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Deborah D. Walker
Office of Personnel
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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

July 7, 1978

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: JAMES T. MCINTYRE, JR. Jim McIntyre
DIRECTOR

SUBJECT: FEDERAL BILL PAYING PRACTICES

1. Purpose: This memorandum is to bring to your attention some recent disclosures regarding Federal bill paying practices and to solicit your support for making improvements to ensure that the Government pays its bills when due.

2. Background: As you know, the Treasury Department administers the public debt. Appropriations are made to that department to finance the interest costs. Interest costs are incurred for essentially two reasons, i.e., to compensate for timing difference between receipts and disbursements and to fund the deficit. It is important, therefore, that all departments and agencies assist the Treasury in its effort to minimize the interest costs by ensuring that bills are paid when due.

3. Recent Disclosures: Reports by the General Accounting Office and recent work by the President's Cash Management Project and the Joint Financial Management Improvement Program have demonstrated the need to pay Government bills when due, not early or late. The work has revealed the importance of clear and practical payment standards for use in Federal procurements and the need to take action to facilitate timely payment of bills.

a. General Accounting Office: The GAO concluded that the lack of explicit payment terms on contracts and purchase orders has resulted in a degree of uncertainty concerning payment due dates. This stems primarily from an absence of standards to guide procurement officials. Our Office of Federal Procurement Policy (OFPP), as part of its program to consolidate procurement regulations, is working to ensure that specific payment terms are included in Government contracts and purchase orders. In the meantime your assistance is needed in ensuring that contracts and purchase orders issued by your agency include specific payment terms that are fair and equitable to all parties.

The GAO has shown that 70 percent of the Government bills amounting to 82 percent of the total dollars paid, were paid on time or early. They concluded that many millions of dollars in interest could have been saved annually if bills had been paid when due.

b. Treasury Requirements: The Treasury Department has overall responsibility for maintaining adequate cash to meet the Government expenditure needs. To effectively carry out this responsibility, the Treasury must be supported by prudent cash management decisions throughout the Federal Government. In meeting its responsibilities Treasury has recently issued Chapter 8000 "Cash Management" as part of its Fiscal Requirements Manual.

The purpose of this cash management regulation is to provide guidelines for agencies in establishing effective cash management procedures to expedite the flow of funds into the Treasury and control the timeliness of disbursements. Under these procedures attention is to be focused on the time value of money, thus tending to maximize the amount of cash available to the Treasury for disbursement or investment and preclude unnecessary borrowing and associated interest costs. The regulations govern agency financial activities including billings and collections, deposits, disbursements, cash advances, cash held outside Treasury, and foreign currency transactions.

c. President's Reorganization Project - Federal Cash Management: The President is interested in the subject of effective cash management and has directed our reorganization staff and the Treasury to work cooperatively towards this end. In addition to examining Government collections, deposit and borrowing practices, the cash management project has been exploring ways to better control disbursements in general and bill paying in particular.

4. Check Writing and Delivery: When a department or agency submits a certified voucher to the Treasury for payment, the Treasury makes payment within 48 hours by issuing a check that is either mailed to the recipient or delivered to the submitting agency or department (Defense writes its own checks. However, the basic principle advanced here is equally applicable

to DOD). In the case of disbursements by the Treasury Financial Communication System (TFCS), the payment is transferred to the recipient's account at a commercial bank. Consideration must, therefore, be given time lags due to processing within the agency and Treasury as well as for mailing and transmission so that the payments are in the recipient's hands on the dates due.

5. Action: The President has asked me to communicate to you his interest in bringing about improvements in cash management practices as rapidly as possible and to request that concentrated attention be given to this subject in each agency. I hope that each of you will give your active interest and support in improving the Government's bill paying performance by ensuring that:

a. payment terms are included in contracts and purchase orders.

b. payments are scheduled to coincide with due dates, rather than before or after.

c. the policies and practices contained in the new Chapter 8000 of the Treasury Fiscal Requirements Manual are observed.

THE WHITE HOUSE
WASHINGTON
26 Jun 80

Tom Jones

The legal Counsel's office concurs with the attached CAB decisions Dockets: 33719 and 35416. Please have appropriate letters autopenned.

Marion Bartle
Rick Hutcheson's office

ID 3511

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 24 1980

ACTION

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Civil Aeronautics Board Decisions:

Laker Airways Limited	Japan Travel Bureau, Inc. d/b/a Japan Travel Bureau International, Inc.
Docket 35416	Docket 33719
Due Date: July 7, 1980	Due Date: July 18, 1980

The Civil Aeronautics Board proposes to take the following actions with regard to the above international aviation cases:

-- The foreign air carrier permit of Laker Airways, Limited, will be transferred to another corporation also known as Laker Airways, Limited. Both firms are incorporated under the laws of Jersey in the United Kingdom and are wholly owned subsidiaries of Laker Airways (International), Limited, another English corporation. The transfer action has been requested so that the current permit holder may take advantage of certain corporate provisions available to the transferee thus facilitating the financing of new aircraft.

-- A foreign indirect air carrier permit will be issued to Japan Travel Bureau, Inc. d/b/a Japan Travel Bureau International, Inc. (JTB) for a period of five years. The issuance of this permit will allow the Japanese firm to organize tours and to contract with air carriers for the transportation of passengers and their accompanied baggage from any point or points in the United States to any point or points outside the United States and return.

-- The National Air Carrier Association (NACA), representing Transamerica Airlines and World Airways, and the American Association of Travel Agents (ASTA) have objected to the Board's earlier show cause order in this case. After reviewing these objections, the Board concluded that the problems raised by NACA and ASTA about Japanese restrictions and discriminatory practices are not aimed at indirect air carrier permit holders. Therefore, the problems raised by NACA and ASTA would not be resolved by

The Departments of State, Defense, Justice and Transportation and the National Security Council have not identified any foreign policy or national defense reasons for disapproving the orders in whole or in part.

The Office of Management and Budget recommends that you approve the Board's decisions by signing the attached letter to the Chairman which indicates that you do not intend to disapprove the Board's orders within the 60 days allowed by statute for your review.

/s/ R. O. Schlickeisen

R. O. Schlickeisen
Associate Director for
Economics and Government

Attachments:

CAB letters of transmittal
CAB orders
Letter to the Chairman

Options and Implementation Actions:

/_7 1) Approve the Board's orders. (DOS, DOD, DOJ, DOT, NSC, OMB.)
-- Sign the attached letter to the Chairman.

/_7 2) Disapprove the Board's orders.
-- Implementation materials to be prepared.

/_7 3) See me.

THE WHITE HOUSE

WASHINGTON

6/16/80

Tom Jones:

We have received White House concurrence on the attached CAB decision.

Please take appropriate action.

Rick Hutcheson

ID 803318

THE WHITE HOUSE

WASHINGTON

DATE: 11 JUN 80

FOR ACTION: STU EIZENSTAT LLOYD CUTLER (DOUG HURON)

Carter

INFO ONLY: THE VICE PRESIDENT

SUBJECT: CAB DECISION: POLSKIE LINIE LOTNICZE, DOCKET 35385

LAST DAY FOR ACTION JUNE 22

+++

+ RESPONSE DUE TO DOUG HURON +

+ BY: 1200 PM FRIDAY 13 JUN 80 +

+++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 10 1980

ACTION

MEMORANDUM FOR THE STAFF SECRETARY

SUBJECT: Civil Aeronautics Board Decision:

Polskie Linie Lotnicze (LOT)

Docket 35385

Due Date: June 22, 1980

You will find attached a memorandum for the President about the above international aviation case. The interested executive agencies have reviewed the Board's decision and have no objection to the proposed order.

This is a routine, noncontroversial matter. No foreign policy or national defense reasons for disapproving the Board's order have been identified. I recommend that the President sign the attached letter to the Chairman which indicates that he does not intend to disapprove the Board's order within the 60 days allowed by statute. Otherwise, the Board's order becomes final on the 61st day.

/s/ R. O. Schlickeisen

R. O. Schlickeisen
Associate Director for
Economics and Government

Attachments:

Memorandum to the President
CAB letter of transmittal
CAB order
Letter to the Chairman

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 10 1980

ACTION

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Civil Aeronautics Board Decision:

Polskie Linie Lotnicze (LOT)

Docket 35385

Due Date: June 22, 1980

The Civil Aeronautics Board proposes to renew the foreign air carrier permit of Polskie Linie Lotnicze (LOT) until March 31, 1982.

The Board also will remove schedule frequency restrictions previously placed upon the carrier's operations between points in Poland and the terminal point New York, New York, via intermediate points. Further, the Board will amend the carrier's permit to allow LOT to operate charter flights without prior approval by the Board.

Polskie Linie Lotnicze had requested authority to serve Chicago, Illinois, as the second U.S. point allowed by the U.S.-Poland Air Transport Agreement. The Board notes that this second U.S. point option may be exercised only after the Government of Poland has officially notified the Government of the United States that wide-bodied aircraft may operate at Warsaw Airport without special conditions or limitations. The Government of Poland has provided no such notification. Therefore, the requested authority by LOT to serve Chicago is denied.

The Departments of State, Defense, Justice and Transportation and the National Security Council have not identified any foreign policy or national defense reasons for disapproving the Board's order in whole or in part.

The Office of Management and Budget recommends that you approve the Board's decision by signing the attached letter to the Chairman which indicates that you do not intend to disapprove the Board's order within the 60 days allowed by statute for your review.

/s/ R. O. Schlickeisen
R. O. Schlickeisen
Associate Director for
Economics and Government

Attachments:

CAB letter of transmittal
CAB order
Letter to the Chairman

Options and Implementation Actions:

/_7 1) Approve the Board's order. (DOS, DOD, DOJ, DOT, NSC, OMB).
-- Sign the attached letter to the Chairman.

/_7 2) Disapprove the Board's order.
-- Implementation materials to be prepared.

/_7 3) See me.

THE WHITE HOUSE

WASHINGTON

To Chairman Marvin Cohen

I have reviewed the following order proposed by the Civil Aeronautics Board:

Polskie Linie Lotnicze (LOT)

Docket 36385

I do not intend to disapprove the Board's order within the 60 days allowed by statute.

Sincerely,

The Honorable Marvin S. Cohen
Chairman
Civil Aeronautics Board
Washington, D.C. 20428

FOR OFFICIAL USE ONLY

CIVIL AERONAUTICS BOARD

WASHINGTON, D.C. 20428

IN REPLY REFER TO: B-1-58

APR 23 1980

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I transmit the Board's proposed order on the application of Polskie Linie Lotnicze (LOT), Docket 35385, for your consideration under section 801(a) of the Federal Aviation Act of 1958 as amended by the Airline Deregulation Act of 1978. The order will issue an amended and renewed foreign air carrier permit to the applicant and adopt the Board's tentative decision in its Order to Show Cause 79-8-104 (enclosed) as amended, unless you disapprove it within 60-days of this transmittal.

If you should decide earlier that you will not disapprove, please advise me to that effect; this will allow the earlier issuance of the permit.

We are submitting this proposed decision to you before publication under the provisions of section 801(a) of the Federal Aviation Act of 1958. In accordance with Executive Order 11920, however, we plan to release all unclassified portions of the decision upon receipt of authorization from your Assistant for National Security Affairs.

Respectfully yours,

(Signed) Marvin S. Cohen

Marvin S. Cohen
Chairman

Enclosures

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