GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-1105, a report to the Committee on Finance, U.S. Senate

September 2007

DEBT MANAGEMENT

Treasury Has Improved Short-Term Investment Programs, but Should Broaden Investments to Reduce Risks and Increase Return

Why GAO Did This Study

Growing debt and net interest costs are a result of persistent fiscal imbalances, which, if left unchecked, threaten to crowd out spending for other national priorities. The return on every federal dollar that the Department of the Treasury (Treasury) is able to invest represents an opportunity to reduce interest costs.

This report (1) analyzes trends in Treasury's main receipts, expenditures, and cash balances, (2) describes Treasury's current investment strategy, and (3) identifies options for Treasury to consider for improving its return on short-term investments. GAO held interviews with Treasury officials and others and reviewed related documents.

What GAO Recommends

GAO suggests that Congress consider providing the Secretary of the Treasury with broader authority in the design of an expanded repo program. GAO also recommends that Treasury explore the reallocation of its short-term investments and, if provided the authority to do so, implement a permanent, expanded repo program that would help Treasury meet its short-term investment objectives while maintaining current minimal risk investment policies. Treasury agreed with our findings, conclusions, and recommendations and said it is committed to exploring ways to improve its short term-investment programs.

www.gao.gov/cgi-bin/getrpt?GAO-07-1105.

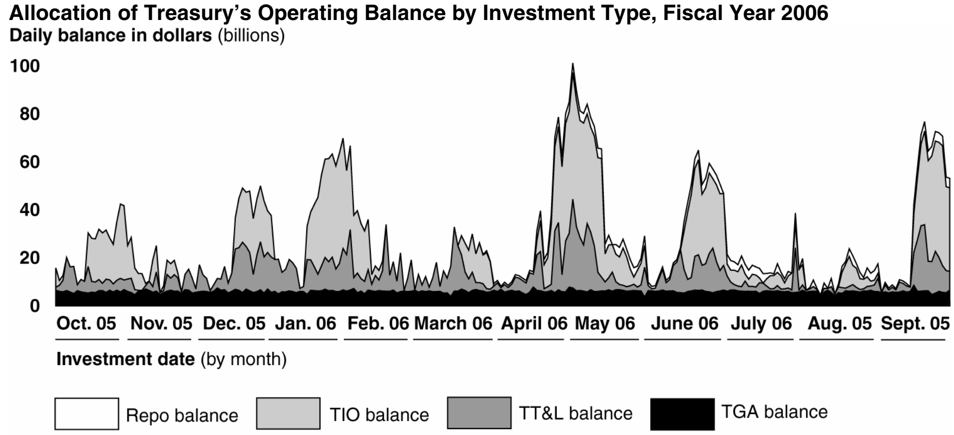
To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142, irvings@gao.gov.

What GAO Found

In managing the funds that flow through the federal government's account, Treasury frequently accumulates cash because of timing differences between when borrowing occurs, taxes are received, and agency payments are made. Treasury often receives large cash inflows in the middle of the month and makes large, regular payments in the beginning of the month.

Treasury uses three short-term vehicles—Treasury Tax & Loan (TT&L) notes, Term Investment Option (TIO) offerings, and limited repurchase agreements (repo)—to invest operating cash. Before Treasury invests any portion of its operating cash balance, Treasury generally targets a $5 billion balance in its Treasury General Account (TGA) which is maintained across the 12 Federal Reserve Banks. The TT&L program provides Treasury with an effective system for collecting federal tax payments while assisting the Federal Reserve in executing monetary policy, but it subjects Treasury to concentration risk and earns a return well below the market rate. The TIO program earns a greater rate of return but it also subjects Treasury to concentration risk. Both programs also present capacity concerns. Treasury began testing repos through a pilot program in 2006. Repos have earned near market rates of return, but because of the pilot's scope and the current, limited legislative authority under which it operates, the repo participants, collateral, trading terms, and trading arrangements are restricted.

Allocation of Treasury's Operating Balance by Investment Type, Fiscal Year 2006



Source: GAO analysis of Treasury data.

A permanent, expanded repo program could permit Treasury to earn a higher rate of return, expand investment capacity, and reduce concentration risk. If given authority to design such a program, Treasury would need to tailor it to meet liquidity needs and to achieve a higher rate of return while minimizing risks that are associated with the selection of program participants, collateral types, terms of trade, and trading arrangements.