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Savings In Interest Costs
Realized By Reducing Cash On Hand
At Overseas Activities

B-159797

Department of Defense

**UNITED STATES
GENERAL ACCOUNTING OFFICE**

MARCH 21, 1974

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-159797

The Honorable
The Secretary of Defense 5

Dear Mr. Secretary:

This is our report on savings in interest costs realized by reducing cash on hand at DOD overseas activities.

As a result of our review, DOD overseas activities have taken action to significantly reduce their cash balances which exceeded operating requirements. DOD representatives agreed that action was needed to insure that, in the future, cash balances do not exceed operating requirements.

C1-62
We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations; the Chairmen, House and Senate Committees on Government Operations; the Chairmen, House and Senate Committees on Armed Services; the Chairman, Senate Committee on Banking, Housing, and Urban Affairs; the Chairman, Senate Committee on Finance; the Chairman, House Committee on Banking and Currency; the Chairman, House Committee on Ways and Means; the Director, Office of Management and Budget; the Secretary of the Treasury; the Administrator of General Services; and the Secretaries of the Army, Navy and Air Force. *> 00300*
> 0100
11 00800

Sincerely yours,

DL Scantlebury

D. L. Scantlebury
Director

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

D I G E S T

WHY THE REVIEW WAS MADE

The Department of Defense (DOD) maintains large cash-on-hand balances overseas, including cash on deposit at branches of U.S. commercial banks on overseas military installations, to facilitate payments in areas not serviced by Federal Reserve banks. At June 30, 1972, such balances totaled about \$500 million. Cash so held, to the extent it involves additional borrowings by the Department of the Treasury, generates interest costs to the Government.

Because of the amounts involved, GAO examined cash-on-hand balances at selected DOD overseas activities in Europe and the Far East to determine whether existing DOD policies and practices adequately insure that such balances do not exceed requirements and that interest costs to the Government are minimized.

FINDINGS AND CONCLUSIONS

Cash-on-hand balances overseas were unnecessarily large in relation to operating needs. Responsible officials at the overseas activities concurred, and the balances were reduced by \$59 million. A sustained reduction of this size will, by limiting the need for future borrowings by the Government, save about \$3 million a year in interest costs.

DOD and military department regulations establish criteria for determining and controlling the amount of cash on hand. However, since the Department of the Treasury, rather than DOD, pays for the interest cost associated with unnecessarily large cash balances, local Defense agency custodians of the cash funds have no incentive to minimize balances. As a result, they tend to request authority to maintain large cash balances to cover not only immediate needs but also future needs. (See p. 5.)

Cash-holding authorizations were grossly overstated and were not computed in accordance with Treasury, DOD, and service-level criteria. Further, the DOD-required quarterly inspection of cash funds was generally limited to cash counts; little effort was directed to identifying unneeded balances. (See pp. 5 and 8.)

Audits by the military department internal audit organizations have, in the past, disclosed that cash-on-hand balances should have been reduced; however, such audits have not been made in the past several years at central finance offices in Germany and Okinawa, which are the principal activities authorized to maintain cash balances. (See pp. 5 and 8.)

To insure that timely actions are taken to maintain cash balances at

levels commensurate with operation requirements, DOD should emphasize to cash-fund managers the need to comply with established cash-fund controls which are designed to minimize the interest costs to the Government.

RECOMMENDATIONS

GAO recommends that the Secretary of Defense:

- Emphasize to officials who approve cash authorizations the need for closer scrutiny of them before approval to insure that they are computed in accordance with Treasury, DOD, and service-level criteria and that allowances for unusual and nonrecurring cash requirements are reasonable.

- Emphasize to the services the need for all quarterly inspections of cash funds to include a determination that cash-on-hand balances do not exceed operating needs.

- Require that more frequent internal audits of cash balances be made at the central finance offices.

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD officials said they will take action to emphasize to cash-fund managers the need to comply with established cash-fund controls. Further, they will review the need for more frequent internal audits of cash funds at overseas central finance offices.

CHAPTER 1

INTRODUCTION

The Department of Defense (DOD) maintains large cash-on-hand balances overseas, including cash on deposit at branches of U.S. commercial banks on overseas military installations, to facilitate payments in areas not serviced by Federal Reserve banks. Overseas, the Department of the Army is the DOD component responsible for acquiring and disposing of dollars and foreign currencies for all Army, Navy, and Air Force disbursing officers. For Europe, Africa, and the Near East, this function is carried out by the U.S. Army Central Finance and Accounting Office, Europe, in Germany. In the Far East, this function is carried out by the U.S. Army Finance Service Center in Okinawa. At June 30, 1972, DOD overseas cash-on-hand balances totaled about \$500 million. Included in this amount are funds maintained at branches of U.S. commercial banks on military installations.

These balances were established pursuant to section 3620 of the Revised Statutes, as amended (31 U.S.C. 492), which authorizes the Secretary of the Treasury to provide for keeping public money entrusted to disbursing officers in other than public depositories to facilitate payments to the public. Cash so held, to the extent that it involves additional borrowings by The Department of the Treasury, generates interest costs to the Government.

Treasury policy is that it will consider all agency requests for authority to carry cash only after the requesting officer has determined that (1) the amount of the authorization requested is not more than the actual cash requirements, (2) checks drawn to be exchanged for cash will not be negotiated sooner than needed, and (3) adequate facilities exist for safeguarding the cash.

Each Federal agency is required to issue regulations which are consistent with Treasury objectives. Treasury also prescribes the procedures and suggests the criteria for determining and controlling the amount of cash held outside the accounts of the Treasury. Treasury policy, procedures, and suggested criteria are included practically verbatim in DOD and military department regulations.

Because of the amounts involved, we wanted to find out whether existing DOD policies and practices adequately insure that cash-on-hand balances do not exceed requirements and that interest costs to the Government are minimized.

SCOPE OF REVIEW

We made our review at the overseas Army central finance offices in Germany and Okinawa where we analyzed the fiscal year 1972 levels of cash-on-hand balances of major accounts to determine if, on the basis of experience or because of changed conditions, an unnecessarily large amount of cash was being maintained. We included accounts maintained at branches of U.S. commercial banks on military installations. We also made limited examinations of cash balances at selected Army, Navy, and Air Force finance offices in Germany, Japan, Okinawa, Korea, Thailand, and the Philippines.

CHAPTER 2

CASH-ON-HAND BALANCES EXCEED OPERATING REQUIREMENTS

Cash-on-hand balances overseas were unnecessarily large in relation to operating needs. Responsible officials at the overseas activities concurred, and the balances were reduced by \$59 million. (See appendix for cash-balance reductions by DOD overseas activities.) Using the average Treasury borrowing rate of 5.242 percent on marketable obligations for fiscal year 1972, we estimate a sustained reduction of this size will, by limiting the need for future Treasury borrowings, save about \$3 million a year in interest costs to the Government.

DOD and military department regulations establish criteria for determining and controlling the amount of cash on hand. However, since Treasury, rather than DOD, pays any interest costs associated with unnecessarily large cash balances, local Defense agency custodians of the cash funds have no incentive to minimize these balances. As a result, they tend to request authority to maintain large cash balances to cover not only immediate needs but also future needs.

DOD-required quarterly local inspections of cash funds were generally limited to cash counts; little effort was directed to identifying unneeded balances.

Audits by the military departments' internal audit organizations have, in the past, disclosed that cash-on-hand balances should have been reduced; however, such audits have not been made in the past several years at central finance offices in Germany and Okinawa, which are the principal activities authorized to maintain cash balances.

DETERMINING AND CONTROLLING AMOUNT OF CASH ON HAND

The DOD criterion for determining and controlling the amount of cash held for purposes other than to meet periodic payrolls by disbursing officers is identical to that suggested by Treasury. This criterion limits cash-on-hand balances to from 3 days' to 1 month's cash requirements, depending on the degree of accessibility to the source of

funds and the dollar value of the requirement. Cash for payrolls may be drawn sufficiently in advance of payment dates to permit prompt and orderly salary payments but must not exceed the amount established to cover the specified payroll.

Treasury regulations require that, if it is found that, on the basis of experience or because of changed conditions, an unnecessarily large amount of cash is being maintained, the agency take action to reduce the fund to a level commensurate with operating needs. To insure disclosure of such a condition, DOD and military department regulations provide that balances of each cash fund be (1) inspected at least once each quarter by local comptroller employees who are not subordinate to the custodian of the cash fund being inspected and (2) periodically audited by the cognizant internal audit organization.

EXAMPLES OF UNNECESSARILY LARGE CASH-ON-HAND BALANCES

The following are examples of unnecessarily large cash balances that were maintained but on which DOD officials did not take actions to reduce the balances to levels commensurate with current operating needs until we brought the conditions to their attention.

--In fiscal year 1972 the average daily balances of U.S. currency and coins stored in a vault of the Army Central Finance and Accounting Office in Germany was \$21 million, whereas the average monthly requirement (withdrawal) was only \$1.6 million. On August 3, 1972, when we discussed this matter with overseas command officials, the cash-on-hand balance was about \$10 million. As a result of our discussion, \$7.6 million was transferred to other accounts which had immediate cash requirements.

--During fiscal year 1972, the Army Finance Service Center in Okinawa maintained an average cash-on-hand balance of \$31.7 million. On the basis of fiscal year 1972 average daily withdrawals, this represented a 54-day supply. If only a 30-day supply had been maintained, which we believe would have been adequate, an average daily balance of only \$17.6 million would have been required. During September 1972 the

average daily balance was \$35.2 million. On November 3, 1972, we advised the Army Finance Center officials that cash on hand exceeded what was needed and that the balance should be reduced. They agreed and, in December 1972, advised us that the cash authorization would be reduced from \$40 million to \$25 million. By March 28, 1973, the balance had been reduced to \$20.3 million--a \$14.9 million reduction from the September 1972 level.

- The Army Central Finance and Accounting Office in Germany maintains dollar accounts at branches of U.S. commercial banks on military installations. These accounts had an average balance of \$46.2 million during fiscal year 1972 and, in November 1972, contained about \$47 million. On the basis of maximum needs, we estimated that their average daily balances should not have exceeded \$34.5 million. On November 17, 1972, we advised local military officials that account balances were higher than necessary and should be reduced. They agreed and, in January 1973, advised us that reductions had been made and additional reductions were planned. The average daily balance in the accounts from January through April 1973 was \$32.9 million--a \$14.1 million reduction from the November 1972 level.
- Selected Army, Navy, and Air Force finance offices in the Far East were maintaining cash-on-hand and foreign currency checking-account balances which were higher than necessary. After we discussed our findings with local officials, they initiated actions which reduced cash-on-hand balances by about \$8.5 million.
- Military finance offices in Europe maintain foreign currency checking accounts with U.S. commercial banks on military installations. Army and Air Force finance office balances in these accounts were higher than necessary during fiscal year 1972. We estimated, for example, that unneeded funds in the Army accounts amounted to \$8.8 million during the year. We suggested to local Army and Air Force officials several

ways to improve procedures for advancing local currency checks to the agency that pays local national employees' salaries and to reduce the cash accounts. Further, we advised local Army officials that the balances in finance office foreign currency checking accounts in general were unnecessarily large, primarily because of infrequent replenishment. On the basis of our suggestions, the Army and Air Force took action to reduce finance office balances. On January 18, 1973, we were advised that average deposits in the foreign currency checking accounts had been reduced by \$10 million as of November 1972.

INADEQUATE CONTROLS OVER LEVELS OF CASH BALANCES

Finance offices are authorized to hold cash in amounts approved by responsible commands. The purpose of individual cash authorizations is to establish management controls over the allowable cash on hand to minimize the interest burden on Treasury. The commands, in establishing cash authorizations, should consider the volume and pattern of disbursements, source of funds, and time and cost necessary to effect replenishment.

Cash-holding authorizations at the offices we visited were grossly overstated and were not computed in accordance with Treasury, DOD, and service-level criteria. Many of the authorizations included unjustified requirements described generally as allowances for unusual items, other items, and contingency requirements. Further, cash authorizations were predicated on a longer than necessary replenishment period and were not adjusted for changing conditions.

No internal audits have been made of the cash requirements for the central finance offices in Germany and Okinawa in the past several years. These offices are the principal overseas activities authorized to maintain cash on hand. Adequate internal audit coverage would help identify and correct weaknesses in cash management that result in unnecessarily large balances.

To insure timely disclosure of unneeded cash on hand, DOD regulations provide for inspections of each cash fund at least once each quarter by local comptroller employees

who are not subordinate to the custodian of the cash fund being inspected. DOD regulations require that, if it is found that unnecessarily large cash balances are being maintained, the finance officer take action to reduce the balances to a level commensurate with operating needs. However, the required inspections have generally been limited to cash counts; little effort was directed to identifying unnecessarily large balances.

CONCLUSIONS

DOD overseas custodians of cash-on-hand funds have not tried to minimize balances and preclude unnecessary interest costs to the Government. Sufficient command attention has not been devoted to this matter even though Treasury, DOD, and service-level guidance adequately and clearly state the policies and management practices that should be followed to insure that only minimum balances are maintained. The underlying cause for this deficiency appears to be that there is little incentive to minimize balances since interest costs incurred on funds outstanding are borne by Treasury rather than the using agency.

Although cash balances have been reduced since we completed our review, DOD needs to emphasize to cash-fund managers the need to comply with established cash-fund controls which are designed to minimize interest costs to the Government.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Emphasize to officials who approve cash authorizations the need for closer scrutiny of them before approval to insure that they are computed in accordance with Treasury, DOD, and service-level criteria and that allowances for unusual and nonrecurring requirements are reasonable.
- Emphasize to the services the need for all quarterly inspections of cash funds to include a determination that cash-on-hand balances do not exceed operating needs.
- Require that more frequent internal audits of cash balances be made at the central finance offices.

AGENCY ACTIONS

DOD officials said they will take action to emphasize to cash-fund managers the need to comply with established cash-fund controls. Further, they will review the need for more frequent internal audits of cash funds at overseas central finance offices.

APPENDIX

CASH-BALANCE REDUCTIONS BY DOD OVERSEAS ACTIVITIES

	<u>Reduction in cash balances</u>		
	<u>_____ (000 omitted) _____</u>		
Europe:			
Army Central Finance and Accounting Office, Germany		\$24,514	
Other Army and Air Force finance offices		<u>10,655</u>	\$35,169
Far East:			
Army:			
Finance Service Center, Okinawa	\$14,876		
Central Finance and Accounting Office, Korea	1,800		
Finance and Accounting Office, Camp Zama, Japan	<u>238</u>	16,914	
Navy:			
Disbursing Office, Fleet Activi- ties, Yokosuka, Japan		443	
Air Force:			
Accounting and Finance Office, Yokota Air Base, Japan	5,161		
Accounting and Finance Office, U-Tapao Air Base, Thailand	<u>900</u>	<u>6,061</u>	<u>23,418</u>
Total			<u>\$58,587</u>

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