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Washington, D.C. 20548

Accounting and Information
Management Division

B-278945

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February 13, 1998

Mr. Donald V. Hammond
Acting Fiscal Assistant Secretary
Department of the Treasury

Subject: Treasury Cash and Debt Management: Comprehensive Written
Policies and Procedures Are Needed

Dear Mr. Hammond:

As you know, under the Government Management Reform Act of 1994 (Public Law 103-356), we are auditing, starting with fiscal year 1997, the consolidated financial statements of the U.S. government prepared by the Department of the Treasury. Because federal cash balances and activity related to managing the federal debt are material to the consolidated financial statements and Treasury's cash and debt accounts involve a high volume of activity, our audit work included a review of Treasury's cash and debt management functions. The objective of this work was to gain an overall understanding of Treasury's roles and responsibilities in managing and reporting the federal government's vast cash resources and the more than \$5 trillion federal debt. Given that the amount of debt outstanding is subject to statutory limitation, compliance with this provision is a critical financial statement audit issue.

In performing our work, we determined that the Office of the Fiscal Assistant Secretary's Office of Cash and Debt Management (OCDM) and the Financial Management Service's Funds Control Branch (FCB) have not fully developed formal written policies and procedures for forecasting and tracking cash flows and monitoring federal debt relative to statutory debt ceiling limits. Therefore, to obtain an adequate understanding of these areas, we relied primarily on extensive interviews with OCDM and FCB staff. We augmented this information by interviewing staff who have roles in the cash and debt management functions at the Federal Reserve Bank of New York and Treasury's Office of Market Finance. We performed our work from December 1996 through October 1997 in accordance with generally accepted government auditing standards.

Using the information gathered during interviews and observations of daily operations, we developed a cycle memorandum to document our understanding

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of the key processes, systems, and transaction flows related to forecasting the federal government's daily cash balance, tracking daily cash receipts and outlays, and complying with the statutory debt ceiling. This cycle memorandum will also offer continuity and efficiencies for future audits by allowing auditors to focus on changes or updates.

In early December 1997, we gave the OCDM Director a draft of our cycle memorandum as a basis for discussing our work. Our December 15, 1997, meeting with the Director, members of his staff, and representatives from FCB focused primarily on the need for Treasury to improve the level of documentation maintained for the key cash and debt management functions. The Standards for Internal Control in the Federal Government (1983) require internal control systems and all transactions and other significant events to be clearly documented and the documentation to be readily available for examination.¹

In view of that standard and, most importantly, because of the magnitude of federal receipts, outlays, and debt financing and the complexity involved in forecasting their impact on federal cash flows, Treasury's processes, systems, and transaction flows in the cash and debt management areas should be sufficiently documented. We noted that OCDM operates with a small, highly experienced staff—essentially three forecasting analysts develop the government's entire daily cash and debt forecast—and has experienced low staff turnover over the years, creating what appears to be a relatively stable operating environment. However, the few staff involved and the specialized and complex nature of what they do give further credence to the need to document the forecasting process. In addition, no assurance exists that staffing will remain stable in the future, and transitions in small operations can pose relatively more operating risk than those in larger operations. Further, the need for adequate documentation takes on even greater immediacy in light of the recent retirement of the OCDM Director. Moreover, it is imperative that the new automated systems that OCDM and FCB are implementing to improve cash forecasting and tracking be sufficiently documented.

If staff should leave unexpectedly, the inadequate documentation of OCDM's processes could expose the cash and debt management functions to inherent operational risks that could affect the fiscal activities the office is charged with

¹This documentation requirement, along with proposed standards superseding the standards we issued in 1983, is included in our exposure draft, Standards for Internal Control in the Federal Government (GAO/AIMD-98-21.3.1), issued in December 1997.

achieving. While FCB's exposure to operational risks would not likely be as great as OCDM's—it has more staff and they focus on tracking actual cash flows as opposed to developing cash flow forecasts—documenting FCB's processes is also important.

During the meeting, Treasury officials generally agreed that we had accurately described Treasury's key processes, systems, and transaction flows related to forecasting the federal government's daily cash balance, tracking daily cash receipts and outlays, and complying with the statutory debt ceiling. The officials also offered several technical suggestions to the draft cycle memorandum. We have provided a revised copy of our cycle memorandum to OCDM, FCB, and your office to use as a reference point for developing comprehensive written documentation in the cash and debt management areas.

RECOMMENDATIONS

We recommend that you (1) ensure that comprehensive written documentation be developed and maintained for the key processes, systems, and transaction flows related to forecasting the federal government's daily cash balance and complying with the statutory debt ceiling and (2) direct the Financial Management Service's Assistant Commissioner for Financial Information to develop and maintain comprehensive written documentation for the key processes, systems, and transaction flows related to tracking daily cash receipts and outlays.

AGENCY COMMENTS AND OUR EVALUATION

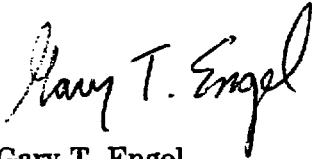
We requested comments on a draft of this letter from the Department of the Treasury. On January 29, 1998, we met with you and other Treasury officials to obtain oral comments.

Treasury generally agreed with our findings and recommendations and acknowledged the need to more comprehensively document its cash and debt management processes. You advised us that you had directed OCDM and FCB to develop and maintain comprehensive written documentation in these areas. You also stated that these efforts will utilize our previously provided cycle memorandum and other systems data and will be completed within the next few months, concurrent with OCDM's and FCB's implementation of new automated systems to improve their cash forecasting and tracking processes.

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We are sending a copy of this letter to the Secretary of the Treasury and will provide copies to others upon request. If you or your staff have any questions about this letter or wish to discuss this matter further, please contact me at (202) 512-8815.

Sincerely yours,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive style with a large, looped initial "G".

Gary T. Engel
Associate Director, Governmentwide Accounting and
Financial Management Issues

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