CHAPTER ONE: Introduction

IMPROVING CASH MANAGEMENT practices is one of the most important issues of the financial world. Technological advances and the broadening availability of the Internet provide exciting, cost-saving cash management tools. The Financial Management Service (FMS), a bureau of the Department of the Treasury, is making full use of emerging technologies to improve the management of the Federal Government's finances. ***FMS' vision is to move toward an all-electronic Treasury, maximizing the use of technology and providing Federal agencies with comprehensive electronic commerce solutions.*** The integration of e-commerce technologies in the payment and collection infrastructure will result in:

- timely and accurate disbursement of Federal payments within the optimal payment processing environment, and
- timely collection of Federal Government receipts at the lowest cost.

The cost savings realized by the integration of technology into the Federal Government's cash management tools lessen the Government's borrowing requirements and the interest paid on that debt, thus saving taxpayers' money. As the Internet becomes the standard for how business is transacted, taxpayers (individuals and businesses) will want the convenience and the choice of interacting with the Federal Government in a similar fashion as they would conduct business transactions with the private sector.

Purpose of *Cash Management Made Easy*

The purpose of the *Cash Management Made Easy* guidebook is to provide a high-level overview of Federal Government cash management tools. *Cash Management Made Easy* is published by FMS. This guide, an updated supplement to the Treasury Financial Manual (TFM), will assist Federal agency cash managers in improving the management of the Government's finances.

The information contained in this guide is to be used in conjunction with Treasury regulations, policies, and procedures set forth in the TFM; Office of Management and Budget (OMB) circulars; General Services Administration (GSA) regulations; Joint Financial Management Improvement Program (JFMIP) core requirements; and internal Federal agency regulations. A list of current regulations and OMB circulars that pertain to cash management is provided in Appendix D.

For additional information on any aspect of cash management, contact the Program Assistance Division or the Customer Assistance Staff (CAS) at your local FMS Regional Financial Center (RFC). Telephone numbers for headquarters and RFCs are provided in Appendix C of this supplement.

Purpose of Cash Management

Cash management is the stewardship or proper use of an entity's cash resources. It serves as the means to keep an organization functioning by making the best use of cash or liquid resources of the organization.

The function of cash management at the U.S. Treasury is threefold:

1. **To eliminate idle cash balances.** Every dollar held as cash rather than used to augment revenues or decrease expenditures represents a lost opportunity. Funds that are not needed to cover expected transactions can be used to buy back outstanding debt (and cease a flow of funds out of the Treasury for interest payments) or can be invested to generate a flow of funds into the Treasury's account. Minimizing idle cash balances requires accurate information about expected receipts and likely disbursements.

2. **To deposit collections timely.** Having funds in-hand is better than having accounts receivable. The cash is easier to convert immediately into value or goods. A receivable, an item to be converted in the future, often is subject to a transaction delay or a depreciation of value. Once funds are due to the Government, they should be converted to cash-in-hand immediately and deposited in the Treasury's account as soon as possible.

3. **To properly time disbursements.** Some payments must be made on a specified or legal date, such as Social Security payments. For such payments, there is no cash management decision. For other payments, such as vendor payments, discretion in timing is possible. Government vendors face the same cash management needs as the Government. They want to accelerate collections. One way vendors can do this is to offer discount terms for timely payment for goods sold.

Agency Benefits of Cash Management Improvements

The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) marked a new era not only in Federal management and accountability, but also in efforts to gain financial control of Government operations. The Act provided a foundation for comprehensive reform of Federal financial management, established a leadership structure, provided for long-range planning, required audited financial statements, and strengthened accountability reporting.

According to the Act, Federal agencies have the responsibility to use timely, reliable, and comprehensive financial information and systems. To that end, FMS encourages all agencies to improve their cash management practices by using electronic funds transfer (EFT) whenever cost effective, practicable, and consistent with statutory authority.

In addition to those benefits noted above, Federal agencies may also realize the following benefits when EFT mechanisms are implemented:

Cost Savings

- Eliminates printing of bills and payment coupons.
- Reduces postage expenses.
- Reduces personnel time for processing remittances manually.
- Eliminates the need for physical security measures for handling cash and checks.

Paper Elimination

- Reduces paper needed for billing.
- Precludes reminder notices.
- Eliminates paper-check handling.

Cash Management Improvement

- Accelerates availability of funds.
- Improves internal controls.
- Provides better cash management forecasting.

Treasury's Single Account

Basic Principles

The U.S. Treasury provides a consolidated funds pool, a single account, for all funds of the Federal Government. That is, Treasury holds all funds, with very few exceptions, under the management of its fiscal agent, the Federal Reserve Bank of New York (FRBNY). Under the single account system, each agency and bureau is given accounting control and responsibility for the timing and use of its funds. However, the agency/bureau does not actually hold those funds outside the Treasury. Although there are exceptions to this rule, they are severely limited in application.

As a corollary to this policy, the Financial Management Service (FMS) manages the services through which all collected funds are received by the Treasury. This increases overall efficiency by eliminating delays in the collection of funds. FMS designates financial agents to provide for funds transfer and deposit reporting services from the FRB as well as private financial institutions and offers other Federal agencies the use of the services. The arrangement encourages agencies to use the best available services and gives the Treasury accurate and timely information of funds availability.

A second principle of this policy is that the Treasury disburses funds and delegates, if necessary, the authority to the agencies to disburse funds. Most Federal agencies do not have the authority to draw checks or initiate electronic funds transfers against the Treasury's accounts, even to spend their own appropriations.

Federal agencies may also initiate payment requests. However, the requests are drawn against the Treasury's account, NOT against a pool of funds held apart by these agencies. Each payment transaction that FMS makes is done so on the requested instruction and certification by a Certifying Officer of the agency that the voucher for payment is legal, proper, and correct. Further, the Certifying Officers attest to the availability of funds in the accounts to which the payment will be charged. This approach balances control by the agency over its own budget, with control maintained by the Treasury over the public monies.

The third principle of this system is that the Treasury takes responsibility for maintaining adequate liquidity each day to cover the day's expected net cash flow plus an extra target balance as a contingency for unforeseen flows. The Treasury can receive direct information from its collection and disbursement systems and from seasonal tendencies in cash flows to forecast the day's liquidity needs.

Advantages of the Single Account System

The Treasury single account system yields significant advantages to the Federal Government, resulting in reduced operations cost, improved control over funds, and better control over debt issuance. The Treasury, as the chief financial agent of the Federal Government, manages the Government's cash and debt positions to ensure that sufficient funds are available to meet financial obligations, so that idle cash is efficiently invested, and that debt is optimally issued according to the appropriate statutes.

The structure of Treasury funds enhances the value of cash management practices for the Government. By using one treasury account for all agencies, cash management efforts at the Treasury become cash management improvements for the entire Federal Government. FMS makes and receives payments for agencies and works to ensure that agencies use the most efficient and effective payment, collection, and cash management processes available. FMS also coordinates the financial activities of the various Federal agencies so that they can benefit from economies of scale. The aim is to minimize the float time that elapses between steps in financial transactions, particularly collections.

Also, short-term forecasting is used to improve debt issuance. Considering the importance of knowing the cash balance position, the Treasury makes a series of predictions of the Government's daily balance. The Treasury has an office with the responsibility for tracking daily cash receipts and outlays. This office uses an automated system called CASH TRACK to help monitor cash movements. CASH TRACK is a system that processes cash position management data from the Federal Reserve Banks, Internal Revenue Service (IRS), Bureau of the Public Debt, CA$H-LINK, and other miscellaneous sources.

Information is also captured daily from the CA$H-LINK system. CA$H-LINK is an electronic cash concentration and information system used to manage the collection of U.S. Government funds throughout the world and provides deposit information to Federal agencies. When operational, the Web-based CA$HLINK II system will replace the current CA$H-LINK system.

The cash balance information available under a single account system promotes better decision-making for monetary policy. The Treasury works closely with the Federal Reserve System to help the Federal Reserve achieve its policy goals. Increases and decreases in Treasury's cash balance position can influence the Federal Reserve's ability to meet its policy goals of reserve supply and interest rates. With this information, the scheduling of short-term debt issuance can be managed to the optimal level for current needs.

Cash Management History

In 1981, President Ronald Reagan, OMB, and the President's Private Sector Survey on Cost Control said that the Federal Government could save a great deal of money by managing Federal cash as carefully as businesses manage their cash. Essentially, most Federal agencies concentrated on operating their programs and ignored the time-value of money. The President's Management Improvement Program took aim at reforming Federal financial management by making one of its top priorities the cessation of the needless loss of interest on cash flows.

In 1981-82, a portion of the President's Management Improvement Program, Reform '88, was developed as a comprehensive program to improve, consolidate, and streamline the management systems of the Federal Government by a target date of 1988. Reform '88 put new life into the management of Federal cash. Each Federal agency was required to monitor its own cash flows, selecting the best tools for speeding collections to the Treasury and timing disbursements to vendors, grantees, and other payment recipients.

Before 1982, the U.S. Government made 30 percent of its payments too late and 45 percent too early, resulting in unnecessary late charges and lost interest earnings. Congress passed the Prompt Payment Act of 1982 (and its amendment in 1988) requiring Federal agencies to make payments on time, to pay interest when payments are late, and to take discounts only when payments are made on or before the discount date. It also provides a formula for determining if a discount is cost-effective. OMB wrote the regulations to implement the Prompt Payment Act, which provides for timely payment, better relations with contractors, improved competition for Government business, and reduced costs to the Government.

Once the necessary legislation and regulations were in place to improve Federal agency management of payments, the Government turned its focus on collections. Congress passed the Deficit Reduction Act of 1984. A section of the Act, referred to generally as the Collection and Deposit Legislation, moved agencies closer to the goal of institutionalizing cash management in the Federal Government. It legislated cash management for collections and deposits analogous to the directives given to Federal agencies about paying their bills on time in the Prompt Payment Act of 1982. The Collection and Deposit Legislation mandated that the Treasury would hold Federal agencies responsible for their collection and deposit practices. Federal agencies must use electronic transfer of funds, lockboxes, and automatic withdrawal of funds wherever feasible and in accordance with Treasury regulations.

The Collection and Deposit Legislation requires FMS to conduct periodic cash management reviews of Federal agency financial operations. These reviews examine and analyze agency management of the following programs: collections and deposits, disbursements, inventories, imprest funds, and other cash held outside the Treasury. The Federal agency and FMS agree on recommendations and plans for improvement.

The Cash Management Improvement Act (CMIA) was enacted in1990 to improve the transfer of Federal funds between the Federal Government and the States. The statutory purpose of CMIA is to: (1) ensure efficiency, (2) provide effectiveness, and (3) ensure equity.

The National Performance Review began in 1993 when President Bill Clinton announced a 6-month review of the Federal Government. The goal was to identify problems and offer solutions and ideas for savings. The report was divided into four sections: (1) Cutting Red Tape, (2) Putting Customers First, (3) Empowering Employees to Get Results, and (4) Cutting Back to Basics. One of the three steps to accomplish the last section, Cutting Back to Basics, is to collect more through imposing or increasing user fees where pricing makes economic sense, and by collecting what the Government is owed in delinquent debt or fraudulent overpayment of benefits. Essentially, the Government must find better, more efficient, and more effective ways to pay for its programs and activities.

On April 26, 1996, Congress passed the Debt Collection Improvement Act of 1996. A major part of this Act began the EFT Program. The EFT Program requires Federal agencies to disburse payments via electronic funds transfer, with few exceptions. The Treasury published regulations to provide guidance to Federal agencies. Agencies began enrolling payment recipients for electronic payments by collecting payment recipients' bank account information and enhancing their systems to provide various electronic payment alternatives.

The cooperative efforts of Federal agencies, the private sector, OMB, and FMS have spawned an impressive list of improvements since the mid-1980's and generated billions of dollars in interest savings.

The Cash Management Arena

The primary entities in the management of the Government's cash are OMB, the Federal Reserve System, and FMS.

The Federal Reserve Banks serve as the fiscal agent for the Federal Government. Created in 1913 by Congress, the Federal Reserve System consists of a 7-member Board of Governors in Washington, DC; 12 regional Federal Reserve Banks (FRBs); and 25 branches. The Federal Reserve lends money to financial institutions, distributes coins and currency, regulates all banks that are members of the Federal Reserve System, and plays a leading role in the operation of the nationwide funds transfer system.

The Federal Reserve Bank of New York (FRBNY) is the largest of the 12 regional FRBs. Because of its size and location in the heart of the U.S. financial district, FRBNY is the center for the Government's financial transactions.

FMS, a bureau of the Treasury, is the Government's financial manager. It is the lead agency in cash, credit, and debt management. FMS manages Federal payments and collections, promotes sound financial management practices by Federal agencies, oversees the Government's central accounting and reporting system, provides debt collection services to Federal agencies, and provides a variety of other financial services. FMS issues guidelines and regulations and assists other agencies in managing financial transactions to maximize investment earnings and reduce the interest costs on borrowed funds.