Treasury Responsibilities in Investment Fund Administration

Report for the Secretary of the Treasury

November 2000

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PREFACE

In order to ensure that Treasury is appropriately discharging its duties in the administration of trust funds and other Government accounts with investment authority, Secretary Summers directed that a study be undertaken to review Treasury's duties and responsibilities. A group consisting of the Under Secretary for Domestic Finance, the Fiscal Assistant Secretary, the General Counsel, the Assistant Secretary for Financial Markets, the Assistant Secretary for Tax Policy, the Assistant Secretary for Economic Policy, the Commissioner of the Internal Revenue Service, the Commissioner of the Bureau of the Public Debt, and the Commissioner of the Financial Management Service was tasked with reviewing Treasury's responsibilities and evaluate how they are being carried out. The review was conducted under the leadership of the Fiscal Assistant Secretary. The members of the group (the Principals) appointed representatives from their respective offices to constitute a working group for performing the review and evaluation. The working group was lead by the Deputy Assistant Secretary for Fiscal Operations and Policy. This report is the result of the working group's effort.

The goals of the effort were to conduct a comprehensive review of the administration of trust and other Government accounts with investment authority within Treasury, document Treasury's role in the administration of these funds, evaluate that role on the basis of appropriateness and efficiency, and develop recommendations to improve this efficiency, if warranted.

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INTRODUCTION

Congress has established a variety of fund accounts on the books of the Treasury to designate or segregate moneys for specific program purposes. In many cases, Congress has either authorized or mandated that the balances in these funds be invested. The funds having lawful investment authority are referred to in this report as "Investment Funds." The number and size of these Investment Funds have grown considerably in the past 20 years. In 1980, the Federal Government maintained 85 Investment Funds, containing just over $193 billion. By July 2000, the total amount of Investment Funds had increased to $2.214 trillion, held in 214 Investment Accounts.[1] Careful and effective administration of Investment Funds is an important and growing responsibility for the Department of the Treasury (Treasury).

After conducting a review of the administration of Investment Funds within Treasury, the working group for this review concludes that Treasury has exercised appropriate diligence in the performance of its duties as currently defined. However, there are a number of administrative improvements that may be undertaken to improve on-going operations and strengthen Treasury's control and oversight of the administration of Investment Funds. These improvements include a more active Departmental monitoring of Investment Fund accounts and overall operations, standardized agreements between Treasury and the Federal agencies with programmatic responsibilities for the uses of the funds ("program agencies"), and stronger internal controls. The recommendations are organized into six general proposals to strengthen or enhance Treasury's Investment Fund administration:

- Improve Treasury's general oversight of Investment Fund operations.
- Clearly define Treasury and program agency roles and responsibilities for Investment Fund management through standardized agreements and increased agency education.
- Increase Treasury's monitoring of individual Investment Funds to identify and resolve unusual or problem situations early.
- Build a unified and comprehensive database of Investment Funds, containing detailed information on all 214 Investment Funds.
- Revise procedures for the monthly allocation of excise tax revenues to the Investment Funds funded by these taxes.
- Improve management and internal controls over Investment Fund processes.

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[1] The 214 investment accounts consist of 165 accounts with an active fund balance and 49 accounts with a current zero balance.

This analysis was limited to the responsibilities of Treasury. Although some of the Investment Funds are managed by Treasury, most of these funds are managed directly by the respective program agencies. The program agencies play a critical role in the administration of Investment Funds, and the effective administration and coordination of any Investment Fund is dependent on the program agency performing its functions competently. However, the management activities of the Federal program agencies are outside the scope of this review, except when those activities directly affect the role of Treasury.

In addition, the working group identified and recommended a legislative solution to restore the Medicare Trust Funds to the financial status they would have been in if certain investment and redemption errors had not occurred. During the course of this review, the proposed legislation was enacted. However, obtaining standing legislative authority to correct the impact of possible future non-material, clerical or other administrative errors would expedite and simplify the correction of these errors. Successful implementation is contingent on clearly defining the types of errors considered clerical and the criteria for determining materiality.

The working group also identified several long-term issues that require further consideration. As future sustained budget surpluses lead to a further decline in the issuance of Treasury securities, it may be appropriate to assess alternatives for benchmark pricing of non-marketable securities that are issued to the Investment Funds. In addition, the administration of excise taxes remains one of the more complex areas of the Investment Fund process. Fuller analysis is needed to assess ways to improve the timeliness and accuracy of the collection of tax payment information from taxpayers and thereby improve the process for allocating receipts to the appropriate excise tax trust fund.

The members of the working group developed a series of Working Papers, which provide supporting documentation for the report. These Working Papers include a detailed description of Treasury's functions in administering Investment Funds, an in-depth discussion of the Secretary's legal responsibilities for these funds, and a discussion of Treasury's Investment Fund investment policies.

SIGNIFICANT GROWTH OF INVESTMENT FUNDS

The collection of moneys designated for Investment Funds comprises a significant portion of the total annual Federal Government receipts. For Fiscal Year 1999, in excess of one-third of total Government receipts were deposited into Investment Funds. Eighty-eight percent of the Investment Fund receipts were deposited into the Social Security and Medicare Trust Funds.[2] In addition, the total dollar amount of issues and redemptions of Treasury securities issued directly to Investment Funds in Fiscal Year 1999 was nearly $30 trillion.

[2] The Social Security Trust Funds are the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund; the Medicare Trust Funds are the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

In 1980, the single largest Investment Fund was the Civil Service Retirement and Disability Fund, which accounted for one-third of the $193 billion total Investment Fund assets at the time. By comparison, the Social Security and Medicare Trust Funds combined represented just over a quarter of total Investment Fund deposits in 1980. The Social Security and Medicare Trust Funds now contain over 50 percent of the total deposits (representing over $1 trillion in investments), and the Federal Old-Age and Survivors Insurance Trust Fund is the largest fund with 39 percent of total Investment Fund assets.

The two charts below illustrate the shift of the percentages of the largest Investment Funds between 1980 and 2000.[3]

Chart 1 - Federal Investment Accounts – 1980
(by dollar volume in the accounts)

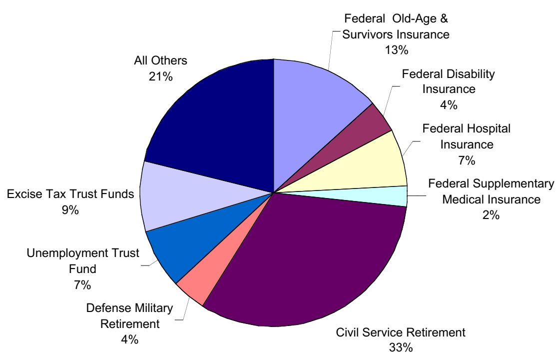
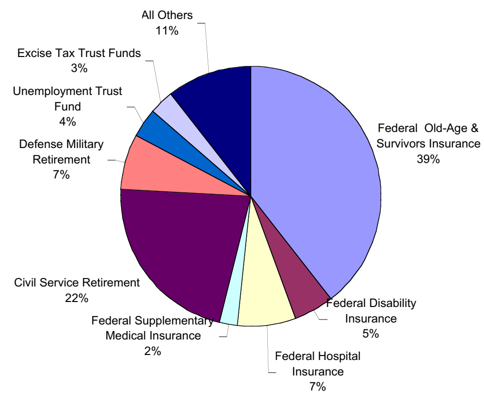


Chart 2 - Federal Investment Accounts – 2000
(by dollar volume in the accounts)



TYPES OF INVESTMENT FUNDS

For purposes of this review, an Investment Fund is defined as any Federal Government account that is established to support a specific program objective, the moneys of which the Secretary of the Treasury is authorized or required to invest. There are four categories of Investment Funds: trust funds, revolving funds, special funds, and deposit funds.

The following charts illustrate the distribution of the types of Investment Funds by number of accounts and the percent of total dollars.

[3] The term "Excise Tax Trust Funds" in Charts 1 and 2 refers to those Investment Funds that receive the proceeds from Federal excise taxes, and are administered by the Department of the Treasury. In 1980, this group consisted of only three such funds: the Airport and Airways, Black Lung Disability, and the Highway Trust Funds. In 2000, this group consists of ten such funds: the of Airport and Airways, Highway, Aquatic Resources, Black Lung Disability, Harbor Maintenance, Inland Waterways, Hazardous Substances Superfund, Leaking Underground Storage Tank, Oil Spill Liability, and Vaccine Injury Compensation Trust Funds.

Chart 3 – Investment Funds by Account Type
(by number of accounts)

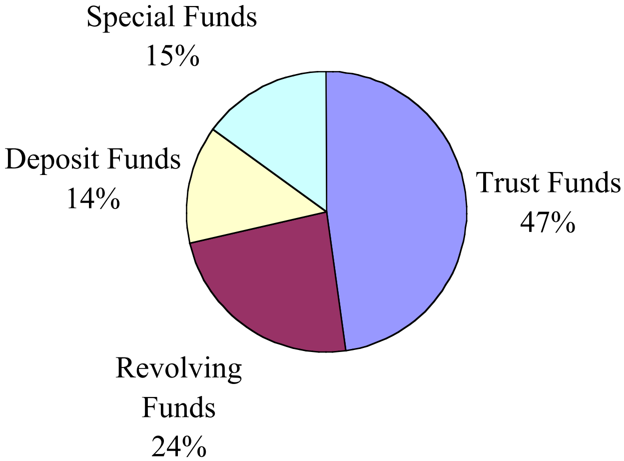
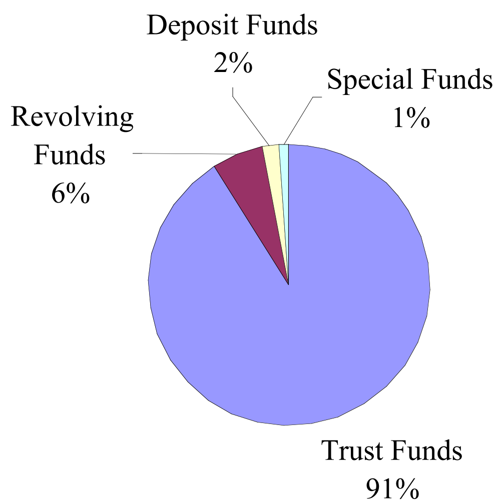


Chart 4 – Investment Funds by Account Type
(by dollar volume)



TRUST FUNDS - The most prevalent type of Investment Fund is a trust fund, both in number of accounts and total amount invested. While trust funds account for 47 percent of the total number of Investment Funds, they hold 91 percent of the total dollar amount of investments held by all Investment Funds. This group consists of funds that are designated by law as trust funds. However, Federal trust funds differ fundamentally from the customary public understanding of a trust fund. In customary usage, the term refers to money belonging to one party and held by another, a trustee, operating as a fiduciary. Trust funds in the Federal Government lack the fiduciary relationship present in the customary understanding of trust funds. The beneficiaries do not own the moneys in the funds and the Congress may, and often does, unilaterally alter the collections, benefit levels, or other features of the programs financed by the funds. These Federal trust funds provide funding for specific programs and purposes. The income from the funds must be used only for the purposes designated by law. Many of the larger trust funds finance social insurance programs (such as Social Security and Medicare) and Federal military and civilian retirement programs. Other major trust funds finance highway and transit construction and airport development.

REVOLVING FUNDS - Revolving funds receive collections earmarked by law to carry out continuing cycles of business-like activity. Six percent of the total dollar amount of investments held by all Investment Funds is held in revolving fund accounts. Revolving funds receive proceeds from the sale of products or services and use the receipts to finance spending directly related to the production and supply of those products and services. Instead of being deposited into receipt accounts, the collections are recorded in a revolving fund, which is an expenditure account. These collections generally are available automatically for obligation and for making payments. Outlays from revolving funds are reported net of offsetting collections. Some revolving funds are authorized to invest that portion of its collections that is not immediately needed to offset expenses. The Exchange Stabilization Fund is an example of a revolving fund with investment authority. The financial industry insurance funds, such as the Federal Deposit Insurance Corporation's Bank Insurance Fund and the National Credit Union Association's Share Insurance Fund, are also revolving funds.

DEPOSIT FUNDS - A deposit fund is defined as a non-budgetary account that records moneys held by the Government as an agent, acting solely as a banker, fiscal agent, or custodian for the owner, or held by the Government temporarily until ownership is determined. Deposit Funds hold two percent of the total dollar amount of investments held by Investment Funds. These funds are normally created by statute but occasionally have been established by agreement. Moneys in deposit fund accounts belong to individuals or groups outside the Government. Deposit fund accounts are managed by a program agency that has responsibility for the custody of the moneys, and the authority to administer these funds is generally provided to the program agency by statute. Transactions that flow through these accounts do not affect the budget surplus or deficit. Treasury's role and responsibility for deposit fund accounting, from a central accounting and reporting standpoint, is the same as for any other appropriation or fund account.

The types and purposes of deposit funds vary considerably. Some deposit funds were established as a result of court orders to protect the value of disputed funds or to pay claims to injured parties. The Holocaust Survivors Fund and the Iranian Claims Settlement Fund are two such funds. The Indian Tribal Trust Funds are also deposit funds. One of the largest deposit funds is the Government Securities Investment Fund (the "G Fund") of the Federal Employees' Retirement System Thrift Savings Plan, which contains voluntary deductions from the basic pay of individual Federal Government employees and matching employer contributions. The moneys deposited into this fund are invested by the Government on behalf of the employees, as part of their retirement savings program; however, the deposited moneys and accrued interest are owned by the employees. It is the respective program agency, not Treasury, that tracks the individual beneficiaries of deposit funds and the amounts belonging to them.

SPECIAL FUNDS - Special funds are often established to receive collections earmarked for spending for specific purposes. These funds are relatively small Investment Funds, and together hold only one percent of the total dollar amount of investments held by Investment Fund. The majority of special fund collections are derived from the Government's power to impose taxes, fines, and other compulsory payments. Significant amounts of the collections designated for deposit to special funds are derived from business-like activity, such as receipts from Outer Continental Shelf mineral leasing, a portion of which is deposited into the Land and Water Conservation Fund. The Treasury Forfeiture Fund and the Uranium Enrichment and Decommissioning Fund are examples of special funds.

THE SECRETARY OF THE TREASURY'S LEGAL RESPONSIBILITIES TO INVESTMENT FUNDS

Generally, a trustee's responsibilities to the trust are governed by common-law principles of trust law. But, as previously mentioned, a Federal "trust fund" is not the same as a common-law trust fund, and common-law trust principles do not apply to Federal trust funds.[4] For Federal Investment Funds, including those classified as trust funds, Congress generally has enacted detailed statutory provisions that prescribe how the Secretary is to deposit moneys into, and invest moneys deposited into, the funds. Historically, there have been no functions that the Secretary has performed for Investment Funds, including those classified as trust funds, that have not been directed or authorized in a statute to be performed. In light of explicit congressional directions described below on how to administer Investment Funds, it may be safely concluded that the governing statutes and the legislative intent, rather than common-law trust principles, determine the Secretary's responsibilities. For this reason, the Secretary's responsibilities to Investment Funds are more appropriately described as "statutory" rather than "fiduciary" duties.

- **The Secretary is not a fiduciary.** Even with respect to those trust funds for which the governing statutes establish the Secretary of the Treasury as the "Managing Trustee" of the board of trustees of the trust funds, the statutes also expressly state that no member of the board of trustees, which includes the Secretary of the Treasury, is to be considered a fiduciary.[5]

- **The Secretary generally may invest only in Government or Government-backed securities.** The statutes governing Investment Funds direct that Investment Fund moneys be invested in a narrowly defined class of permitted investments. Under most of these statutes, the Secretary of the Treasury is limited to investing the funds only in "interest-bearing obligations of the United States" or in "obligations guaranteed as to principal and interest by the United States." Moreover, for the largest Investment Funds (the Social Security, Medicare, and Civil Service Retirement Trust Funds), the governing statutes establish a

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[4] As explained in the budget of the United States Government for Fiscal Year 2001:

> The Federal budget meaning of the term 'trust' differs significantly from its private sector usage. The beneficiary of a private trust owns the trust's income and often its assets. A custodian manages the assets on behalf of the beneficiary according to the stipulations of the trust, which he or she cannot change unilaterally. In contrast, the Federal Government owns the assets and earnings on most Federal trust funds, and it unilaterally can raise or lower future trust fund collections and payments, or change the purpose for which the collections are used, by changing existing law.

Budget of the United States Government, Fiscal Year 2001: Analytical Perspectives, page 343 (2000).

[5] "The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees. . . . A person serving on the Board of Trustees shall not be considered to be a fiduciary and shall not be personally liable for actions taken in such capacity with respect to the Trust Funds." 42 U.S.C. э 401(c) (with respect to Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund); 42 U.S.C. э 1395i(b) (with respect to the Federal Hospital Insurance Trust Fund); 42 U.S.C. э 1395t(b) (with respect to the Federal Supplementary Medical Insurance Trust Fund).

preference that the Secretary invest the funds in special non-marketable obligations of the United States issued directly to the funds and prescribe specific formulas for setting the interest rates on the Treasury specials issued directly to the funds. These special-issue Treasury securities, which by statute may be redeemed at any time at par, are referred to as "par value specials."[6] In contrast, common-law trust principles give trustees and managers of pension funds significantly more discretion in, and concomitant responsibility for, making investment decisions for common-law trust funds.

- **The Secretary must select investment maturities with due regard to the needs of the program.** For most of the largest Investment Funds, the governing statutes include provisions directing that the funds are to be invested in securities having maturities "fixed with due regard for the needs" of the Investment Fund. Treasury has developed standardized language to use in new legislative proposals for establishing Investment Funds, which directs that investments shall be made "in public debt securities suitable to the needs of the fund, as determined by the [head of the program agency]." This direction reflects an intent that the securities purchased as investments for these Investment Funds should be selected in light of the anticipated disbursements from the funds (as determined by, or in consultation with, the program agency) and then held to maturity, rather than actively bought and sold in an attempt to "play the market." Again, this specific direction in the statute governing those Investment Funds contrasts with the discretion given to common-law trustees and managers of pension funds to select maturities for investments.

- **The Secretary may take "public interest" into account in addition to "beneficiary interest."** Under most of the statutes governing the largest Investment Funds, the Secretary of the Treasury is permitted to invest the funds in securities other than the preferred Treasury specials only when the Secretary determines that it is in the "public interest" to do so. While the statutes give no definitive direction as to what is meant by the phrase "public interest," the phrase fairly plainly means something other than merely the "beneficiary interest."[7] This authority of the Secretary to take the "public interest" into consideration when making

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6 See Investment Options (page 21) for a fuller discussion of "par value specials."

7 "This 'public interest' test . . . seems to refer to 'general taxpayer interests' rather than 'beneficiary interests' . . ." Memorandum dated January 15, 1981, from Acting Treasury General Counsel Brennan to Treasury Deputy Secretary Carswell at 2. As the Advisory Council on Social Security Financing observed in its 1959 report:

> "From time to time, circumstances arise in which investment of trust fund assets in public obligations [i.e., public issues on the open market] may be in the public interest. At a time of declining bond prices, for example, purchase of public issues on the open market may help preserve the asset value of Federal securities held by private investors. It may also assist the Treasury Department in the sale of new issues of Federal securities at a time when the market for Government bonds is unfavorable."

Financing Old-Age, Survivors, and Disability Insurance: A Report of the Advisory Council on Social Security Financing, pages 26-27 (1959).

investment decisions for Investment Funds contrasts sharply with a common-law trustee's fiduciary duty of undivided loyalty to his trust beneficiary.[8]

In addition, to the extent that the Secretary of the Treasury's responsibilities to an Investment Fund are set forth and defined by the statute governing that Investment Fund, his duty of care may be analogized to the duty of care that is required to be exercised by an indenture trustee under a corporate trust indenture agreement, whose responsibilities are strictly defined and limited by the terms of governing agreement. A complete discussion of the Secretary's Legal Responsibilities is contained in Working Paper 3, "The Secretary's Legal Responsibilities to Investment Funds" of the Investment Fund Review – Working Papers.

AGENCY-MANAGED AND TREASURY-MANAGED INVESTMENT FUNDS

Investment Funds administered by the Secretary of the Treasury have been divided into two categories. The first category consists of funds for which the Secretary of the Treasury merely acts as an executor of investment decisions made by the program agencies. Funds in this category are referred to as "agency-managed Investment Funds." The second category consists of funds for which the Secretary of the Treasury has a greater responsibility for funding, accounting, reporting, and for investment and redemption decisions. Funds in this category are referred to as "Treasury-managed Investment Funds."

Agency-Managed Investment Funds. Agency-managed Investment Funds are Investment Funds for which the Treasury acts merely as an investment agent, executing the investment and redemption instructions given by the program agency for the fund. Agency-managed Investment Funds comprise the overwhelming majority of the number of individual Investment Funds (199 of a total of 214 accounts) and hold $805 billion of investments as of July 31, 2000, or only 36 percent of total investments of all Investment Funds. The Railroad Retirement Accounts, the Postal Service Fund, and the Pension Benefit Guaranty Corporation revolving fund are examples of agency-managed Investment Funds.

The investment language in the statutes or agreements governing agency-managed Investment Funds generally vests in the program agency the discretionary function of determining the portion of the moneys in the fund that is to be invested. The program agency generally notifies the Treasury of the amount that is to be invested and the security(ies) it is purchasing. Treasury then makes the investment. Up until 1974, the balances in the agency-managed Investment Funds were generally invested in marketable Treasury securities. Beginning in 1974, the receipts of most of the agency-managed Investment Funds have been invested in non-marketable Treasury securities that match the interest rates and maturity dates of particular Treasury securities trading in the Government securities market, but are issued directly to the Investment Funds. These mirror-image, special-issue Treasury securities are referred to as "market-based specials."[9]

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[8] "The trustee is under a duty to the beneficiary to administer the trust solely in the interest of the beneficiary." Restatement (Second) of Trusts э 170 (emphasis added).

[9] See Investment Options (page 22) for a fuller discussion of market-based specials.

Treasury-Managed Investment Funds. Treasury-managed Investment Funds are the larger funds that receive moneys that are collected by the Treasury through employment or excise taxes and transferred to the funds, based on estimates. Only 15 Investment Funds, out of a total of 214, are Treasury-managed Investment Funds but these are the major Government funds. Treasury-managed Investment Funds held $1,409 billion in investments as of July 31, 2000, or 64 percent of total investments held by all Investment Funds. The Treasury-managed Investment Funds are the Social Security and Medicare Trust Funds, the ten excise tax trust funds, and the Unemployment Trust Fund. Operationally, the role of the Treasury in the administration of Treasury-managed Investment Funds differs from agency-managed Investment Funds in three distinct ways: the processing of receipts to the Investment Funds, the investment of the moneys held by the funds, and the accounting of Investment Fund activity. The rationale for this different role is that Treasury-managed Investment Funds are effectively funded by taxes collected by the Internal Revenue Service (IRS), and accordingly, Treasury is in a better position than the respective program agency to estimate the tax receipts for these funds.

Treasury plays a critical role in the collection and the determination of receipts for the Treasury-managed Investment Funds. IRS collects payroll taxes (funding the Social Security, Medicare, and Unemployment Trust Funds) and excise taxes (funding the excise tax trust funds). Although tax collections are received daily, final determination of the exact amount of taxes paid does not occur until quarterly tax returns are processed. The statutes governing these funds provide that it is the duty of the Secretary of the Treasury to make the monthly estimates of tax liabilities (in the case of certain funds) and collections (in the case of certain other funds) for purposes of the timely funding of these Investment Funds. The Financial Management Service (FMS) initially distributes these moneys to the funds, based on estimates supplied by the Office of Tax Analysis (OTA) and the Social Security Administration (SSA) for the Social Security Trust Funds.

In addition, Treasury plays a more active role in the investment function for Treasury-managed Investment Funds than it does for agency-managed Investment Funds. The statutes governing the 15 Treasury-managed Investment Funds provide that it is the duty of the Secretary of the Treasury to invest the moneys not needed for current withdrawals of the program. However, the Secretary relies on the respective program agency to provide him with information on the current funding needs of the program. In addition, Treasury, in consultation with the appropriate program agency, develops an investment plan for each Treasury-managed Investment Fund. On an annual basis, the Treasury submits the investment plan to the respective program agency for each of the 15 Treasury-managed Investment Funds, describing the plan for investing the receipts of the funds for the following year. The program agency either approves the plan as meeting the needs of the program or requests changes.

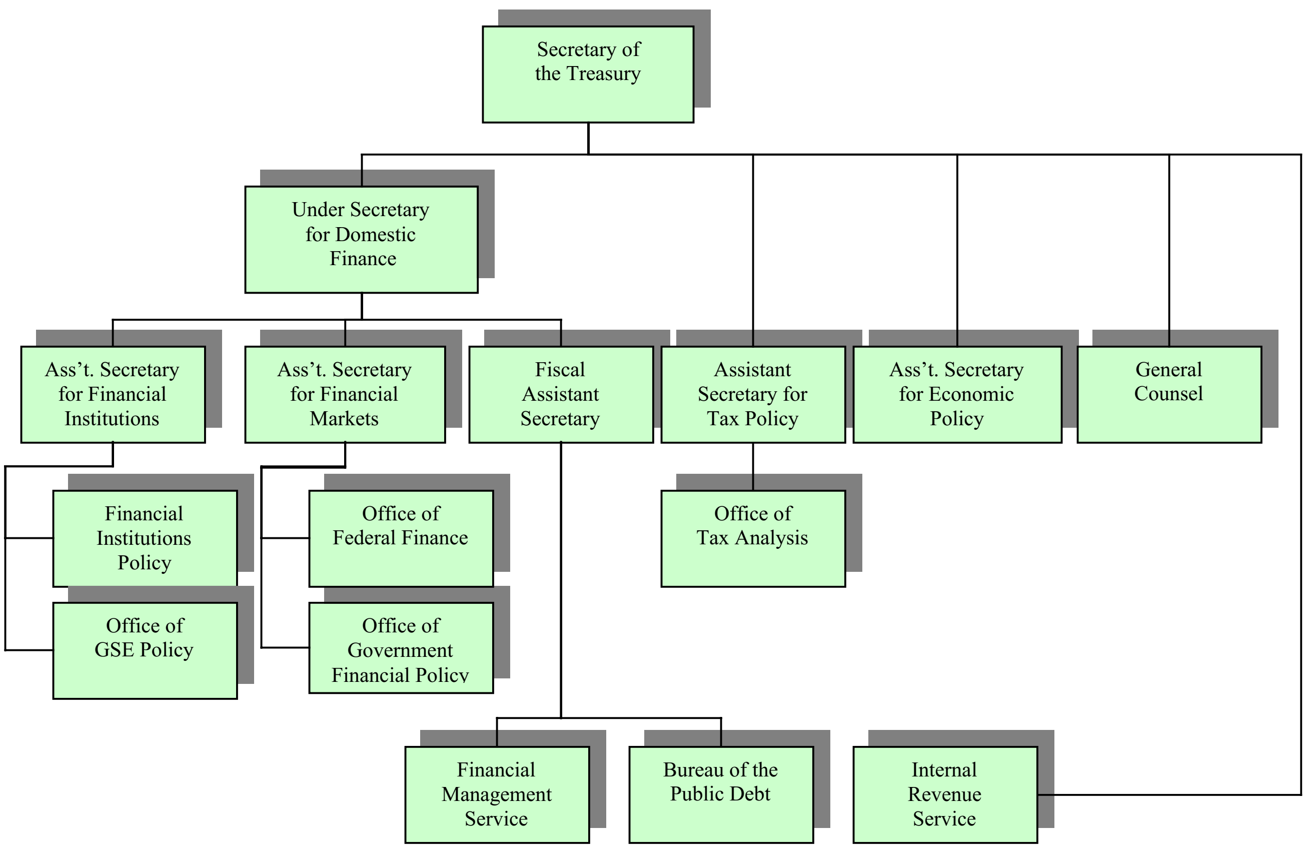
Once the investment plan has been approved, Treasury's investment of these Treasury-managed Investment Funds is essentially mechanical. The longstanding administrative practice of Treasury, during normal times, has been to carry out its investment responsibilities for these funds according to the established formula-driven investment and redemption procedures developed for each Treasury-managed Investment Fund in consultation with the respective program agency. For example, the investments for the daily deposits to the Social Security Trust Funds are made in par value specials that mature the following June 30. On each June 30, the proceeds from all fund investments made during the preceding 12-month period are reinvested in par value special specials with maturities such that the portfolio is spread equally over the next 15 years.[10]

The Bureau of the Public Debt (BPD) also provides a complete accounting of Investment Fund activity and supplies monthly and periodic reports to program agencies, the central accounting system of FMS, and other interested parties.

FUNCTIONS PERFORMED BY THE DEPARTMENT OF THE TREASURY

As illustrated in Chart 5 below, the administration of Investment Funds is a complex process requiring the coordination of the offices of five Assistant Secretaries (three of whom report to the Under Secretary for Domestic Finance), the General Counsel, and three Treasury bureaus.

Chart 5 - Offices with Investment Fund Responsibilities within the Department of the Treasury



[10] This system of investing the Social Security Trust Funds over 15 years has been the subject of Congressional hearings in 1981, 1982, and 1986 and was analyzed by the National Commission on Social Security Reform in 1983. The Commission concluded "the investment procedures followed by the trust funds in the past have been proper and appropriate." Report of the National Commission on Social Security Reform, page 2-22. (1983)

While the majority of the operations are centralized within IRS, FMS, OTA, and BPD, there is no one organization in the bureaus or within the Departmental Offices providing overall guidance and oversight to program agencies and to offices with programmatic responsibilities within the Department. Nor is there one office within Treasury that has comprehensive knowledge of the whole of the Department's Investment Fund responsibilities to provide the Secretary with expertise in responding to and resolving issues that arise in Investment Fund administration.

The administration of Investment Funds involves the investment of over $2 trillion, maintained in 214 Investment Fund accounts, and many more sub-accounts. However, given the size and scope of the investment operations the Department performs, Treasury devotes relatively few resources to the administration of Investment Funds. Throughout the entire Treasury Department, a total of 54 full time equivalents (FTEs) work on Investment Fund administration. The majority of these resources are assigned to two bureaus: IRS, for the tax returns processing functions; and BPD, for investment and accounting services within the Division of Federal Investments and for legal consultation in the Office of the Chief Counsel (see Table 1).

Table 1 – Distribution of Investment Fund Resources within the Department of the Treasury

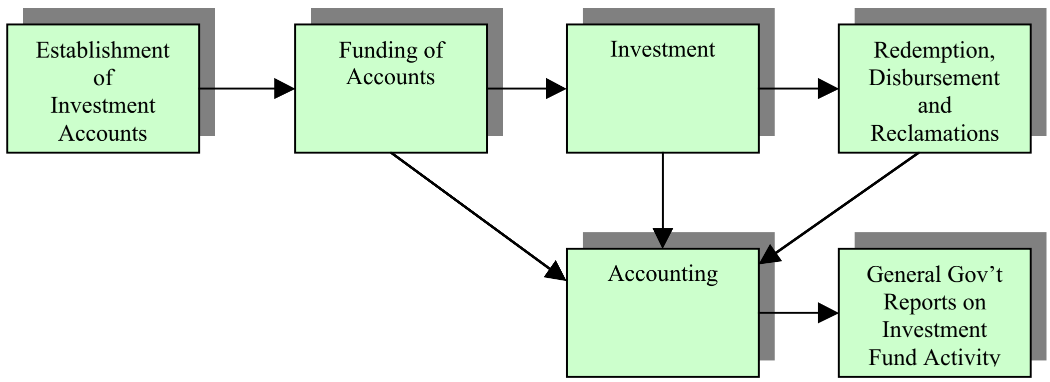
Treasury Office	**Number of FTEs***
Office of the Fiscal Assistant Secretary	0.5
Bureau of the Public Debt	
Division of Federal Investment	24.0
Office of the Chief Counsel	5.5
Financial Management Service	1.0
Office of the Assistant Secretary for Financial Institutions	1.0
Office of the Assistant Secretary for Financial Markets	1.0
Office of the Assistant Secretary for Tax Policy, Office of Tax Analysis	2.0
Office of the Assistant Secretary for Economic Policy	1.0
Office of the General Counsel	1.0
Internal Revenue Service	17.0
Total	**54.0**

* These figures are exclusive of resources devoted to the collection of receipts from the public.

The Department of the Treasury performs six primary functions in the administration of Investment Funds: the establishment of Investment Fund accounts; activity related to the funding of Investment accounts; investment activities; redemption and disbursement activities; accounting; and reporting to other entities within the Government and to the public. (For a detailed description of these processes, see Working Paper 4, "The Process of Investment Fund Administration within the Department of the Treasury" of the Investment Fund Review – Working Papers.) In addition, the Secretary serves as the Managing Trustee of the Boards of Trustees for the Social Security and Medicare Trust Funds. The Secretary also serves as a member of the Board of Directors for the Pension Benefit Guaranty Corporation (PBGC) trust fund and several other funds.

However, for the Treasury to execute its responsibilities in Investment Fund administration appropriately, it must rely on the program agency to carry out its functions properly and competently. If the program agency is deficient in performing its duties, and provides erroneous information to Treasury, the resultant action by Treasury may also be erroneous. For a listing of the program agency responsibilities in Investment Fund management, see "Role of the Federal Program Agency," page 18.

Chart 6 – Areas of Treasury Involvement in Investment Fund Administration



The Establishment of Investment Fund Accounts - Establishing a new Investment Fund on the books of the Treasury requires coordination between the statutorily designated program agency, the Office of Management and Budget, and Treasury. FMS is responsible for supplying the Treasury Fund Account Symbol (TFAS) for all new accounts to responsible agencies. FMS and BPD set up the new investment accounts within the Treasury's central accounting system and Treasury's system for making and tracking the purchases and sales of Treasury specials for Investment Funds (the Government Account Series (GAS) system) respectively.

However, the program agency must initiate a request for a TFAS from FMS to establish the account, and verify the account is properly set up in the central accounting system and the GAS system.

The Funding of Investment Fund Accounts - Treasury's involvement in the funding of investment accounts varies depending on whether the account is an agency-managed Investment Fund or a Treasury-managed Investment Fund. For agency-managed funds, the program agency makes sure the account is funded, either through designated collections or direct appropriations by Congress. Treasury's role in funding these accounts is limited to issuing warrants as directed by the program agencies, relying on the representation by the program agencies that funding has occurred.

Treasury-managed Investment Funds are funded through taxes (employment or excise) collected by IRS on behalf of the program agencies. FMS and OTA perform critical roles in determining the appropriate amount of collections to credit to these trust funds.   The program agencies for Treasury-managed funds do not play a major role in the crediting of designated collections to the Investment Funds.

Investment Activities - For the agency-managed Investment Funds, BPD acts as the investment agent, executing the purchase requests. The program agency directly manages the fund's investment portfolio, determining the appropriate investment strategy that meets the needs of the program. The program agency verifies the amount of moneys available for investing prior to issuing requests to BPD for the purchase of specific Treasury specials. Agencies also review BPD confirmation letters to ensure that requests were handled properly.

For the Treasury-managed Investment Funds, BPD follows the standing investment approach Treasury developed, in consultation with the program agency, when selecting and purchasing securities to invest the funds' receipts.[11] BPD notifies the program agency of any investment activity. The program agencies for Treasury-managed Investment Funds are not involved in daily investment decisions, but do confirm the daily investment activity.

For both types of funds, BPD obtains prices and interest rates from the Office of Market Finance for all securities except overnight securities; the interest rates for overnights are obtained directly from the Federal Reserve Bank of New York.

Redemption and Disbursement Activities - For agency-managed Investment Funds, BPD executes redemption requests of the program agencies. The program agencies identify specific securities to redeem in order to meet the funding needs of the Federal programs financed through the funds.

Program agencies for Treasury-managed Investment Funds determine funding requirements, and advise BPD of the amounts of moneys needed to fund program activity and the timing required for the moneys. BPD selects the securities to redeem to meet those requirements in accordance with the established redemption approach for the particular fund.[12]

For both types of funds, BPD provides confirmation letters specifying the action taken for the agencies' review. Once funding is made available, the program agencies determine the appropriate disposition of the funds. FMS provides disbursement services for the majority of program agencies by delivering payments to recipients based on program agencies' instructions and assistance in reclaiming erroneous payments.

Accounting - FMS is responsible for the Government's central accounting and reporting functions and receives and provides accounting reports on all Treasury fund accounts, including Investment Funds.

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[11] The program agency provides BPD with information on the current and future funding needs of the Federal program financed through the Investment Fund. Treasury has developed investment plans for each Treasury-managed Investment Fund with maturities to meet those funding needs and limit interest rate risk. Annually, BPD submits each investment plan to the respective program agency for approval or comments.

[12] For example, securities in the Social Security Trust Funds are redeemed in the following order: (1) securities with the shortest time to maturity; then (2) among securities of the same maturity, the ones with the lowest interest rate.

For the Treasury-managed Investment Funds, BPD reports cash transactions, including investment and redemption activity, to FMS on a monthly basis for entry into, and reconciliation with, the central accounting records. The program agency reports cash transactions for agency-managed funds to FMS monthly. For all investment accounts, BPD provides accrual-based financial reporting for Investment Fund activity, including the crediting of interest, via the Federal Agencies Centralized Trial-balance Systems II (FACTS II) to FMS on a quarterly basis. The program agency provides accrual-based financial reporting on activity for the corresponding disbursement accounts.

The program agency is responsible for monitoring, accounting, and reporting the fund balances in the investment account. Program agencies for both agency-managed and Treasury-managed Investment Funds must correctly account for investment and redemption transactions in the agencies' internal accounting systems and on accounting reports submitted to Treasury. They also must reconcile account balances and related activity with the monthly account statements from FMS and BPD.

Reporting to Other Entities within the Government and to the Public - The Secretary of the Treasury is required to report to the President, Congress and American people on the financial operations of the Government. FMS and BPD publish periodic reports on the position of the federal budget and the public debt, respectively, with summary information on the financial positions of Investment Funds. FMS publishes reports on the financial conditions of, and projections for, the Treasury-managed Investment Funds on an annual basis. In addition, as the Chairman of the Boards of Trustees for the Social Security and Medicare Trust Funds, the Secretary participates in the preparation of the annual Trustees' Reports to Congress on the operations of, and projections for, those funds.

Program agencies provide financial statements for Investment Funds in accordance with the Chief Financial Officers Act. In many cases, program agencies are required to prepare annual financial reports for specific funds for the Congress and the public.

Role of the Secretary of the Treasury as Managing Trustee and Chairman of the Boards of the Social Security and Medicare Trust Funds - The Social Security Act designates the Secretary of the Treasury as Managing Trustee of the two Social Security and two Medicare Trust Funds: the Federal Old-Age Survivors Insurance (OASI), Federal Disability Insurance (DI), Federal Hospital Insurance (HI), and Federal Supplementary Medical Insurance (SMI) Trust Funds.[13] The Secretary of the Treasury is not responsible for the day-to-day operations of the Social Security and Medicare programs; however, by law, the Managing Trustee does have responsibility for managing the investment of the Trust Funds, which is handled through BPD. As mentioned previously, BPD performs this duty in close consultation with the program agencies,

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[13] The other members of the boards are the Secretary of Health and Human Services, the Secretary of Labor, the Commissioner of Social Security, and two members of the public, who are appointed by the President and confirmed by the Senate. The specific duties of the Board of Trustees, and the Managing Trustee, are contained in sections 201 (relating to the OASDI Trust Fund), 1817 (the HI Trust Fund), and 1841 (SMI Trust Fund) of the Social Security Act.

the Social Security Administration (SSA) and the Health Care Financing Administration (HCFA) and in conformance with statutory requirements and Treasury investment policies.

The Secretary of the Treasury is also Chairman of the Boards of Trustees of the Social Security and Medicare Trust Funds. This role is not mentioned in the Social Security Act, but is instead established in the bylaws of the Boards. The Secretary chairs the semi-annual meetings of these Boards of Trustees. As Chairman of the Boards and as a key financial advisor to the President, the Secretary plays an important role in the policy decisions that affect the long-range future of the Social Security and Medicare programs. The Office of Economic Policy supports the Secretary of the Treasury in this role. At the spring meeting of the Boards of Trustees of the Social Security and Medicare Trust Funds, the trustees release three annual reports. These reports provide information on the financial operations of the trust funds during the proceeding year, as well as 75-year projections of the OASDI, HI, and SMI programs. The 75-year projections are based on economic and demographic assumptions agreed to by all of the trustees, including the Secretary of the Treasury.

Role of the Secretary of the Treasury as a Member of the Board of Directors of the Pension Benefit Guaranty Corporation (PBGC) - The Employee Retirement Income Security Act (ERISA) established the PBGC and its three-member Board of Directors comprising the Secretaries of Labor (chair), Treasury, and Commerce. In his capacity as a Board member, the Secretary plays an important role in formulating the PBGC's investment policies. As of July 31, 2000, the PBGC had $12.2 billion invested at the Treasury and $8.3 billion invested in equity securities.[14] The policy governing the PBGC's equity investments is currently under review. The PBGC and its Investment Advisory Committee (also established by ERISA) regularly raises questions about the PBGC's Treasury investments, some of which are mandated by ERISA and some of which are invested in Treasury specials by Board policy. Thus, these investments are periodically reviewed and the Secretary participates in the Board's decision-making regarding these investments.

The Excise Tax Trust Fund Working Group – In 1997, Treasury convened a group of representatives from the various Treasury offices and bureaus that handle excise tax trust fund operations to form the Excise Tax Trust Funds Working Group. The group was formed in response to a series of errors affecting the Highway, Mass Transit, and Airport and Airways Trust Funds.[15] The Working Group developed a set of corrective actions and recommendations that addressed several weaknesses in the Department's administration of excise tax trust funds. The Excise Tax Trust Funds Working Group has continued to meet to address issues relating to the collection and distribution of excise taxes designated for Federal trust funds, to improve communications between the involved offices and bureaus, and to improve the understanding of the processes of excise tax trust funds administration, an area that remains one of the most complex areas of Investment Fund administration.

[14] PBGC has the statutory authority to invest assets from terminated pension plans in equities.

[15] See Working Paper 6, "Open and Recently Resolved Issues," of the Investment Funds Review – Working Papers for a discussion of recently resolved issues.

ILLUSTRATION 1 – This illustration provides an overview of Treasury's role in the administration of the largest Investment Funds, the Social Security Trust Funds. It illustrates the complexity of operations and involvement of the various Treasury offices and bureaus for a Treasury-managed Investment Fund.

The Social Security Trust Funds are primarily funded by contributions paid by employers, employees, and the self-employed on covered earnings. The Internal Revenue Service (IRS) collects these contributions as part of taxpayers' employment taxes. Employers and self-employed taxpayers make deposits to IRS either by submitting a paper Federal Tax Deposit coupon and deposit to an authorized financial institution, by submitting the deposit electronically using the Electronic Federal Tax Payment System, or by submitting a payment with a tax return. However, taxpayers are not required to break out Social Security collections separately. Actual figures are not available until quarterly tax returns are processed, approximately 9 months after the close of the tax liability quarter.

Because of this time lag, monthly investments into the Social Security Trust Funds are based upon tax receipts estimated by Treasury's Office of Tax Analysis (OTA) and the Social Security Administration (SSA). OTA prepares the economic models forecasting Social Security tax receipts and develops the estimates used to distribute these receipts to the trust funds. OTA provides the Financial Management Service (FMS) with the percentages of daily tax receipts to allocate to the Trust Funds and the total monthly dollar amounts to be warranted to each Trust Fund.

The Social Security Act names the Secretary of the Treasury as the Managing Trustee of the Social Security Trust Funds. The Act requires that the Secretary, as Managing Trustee, invest funds not needed to "meet current withdrawals" in United States Government securities (or other securities where the United States guarantees both interest and principal), and states a preference for "par value" specials, which are redeemable at face value at any time.

Based on the warrants processed by FMS, the Bureau of the Public Debt invests daily deposits to the Social Security Trust Funds in non-marketable par value Treasury specials (certificates of indebtedness or CI's) which mature on the following June 30. When the CI's mature on June 30, BPD reinvests the funds in par value specials selected so that the portfolio is spread evenly over the next 15 years.

As specified in the Social Security Act, Treasury, through the Office of Market Finance, calculates the monthly interest rate on Trust Fund specials as the average rate on all marketable interest-bearing obligations of the Government with four or more years to call or maturity. Interest is credited to the funds on June 30 and December 31, and reinvested at the interest rate in effect for that month.

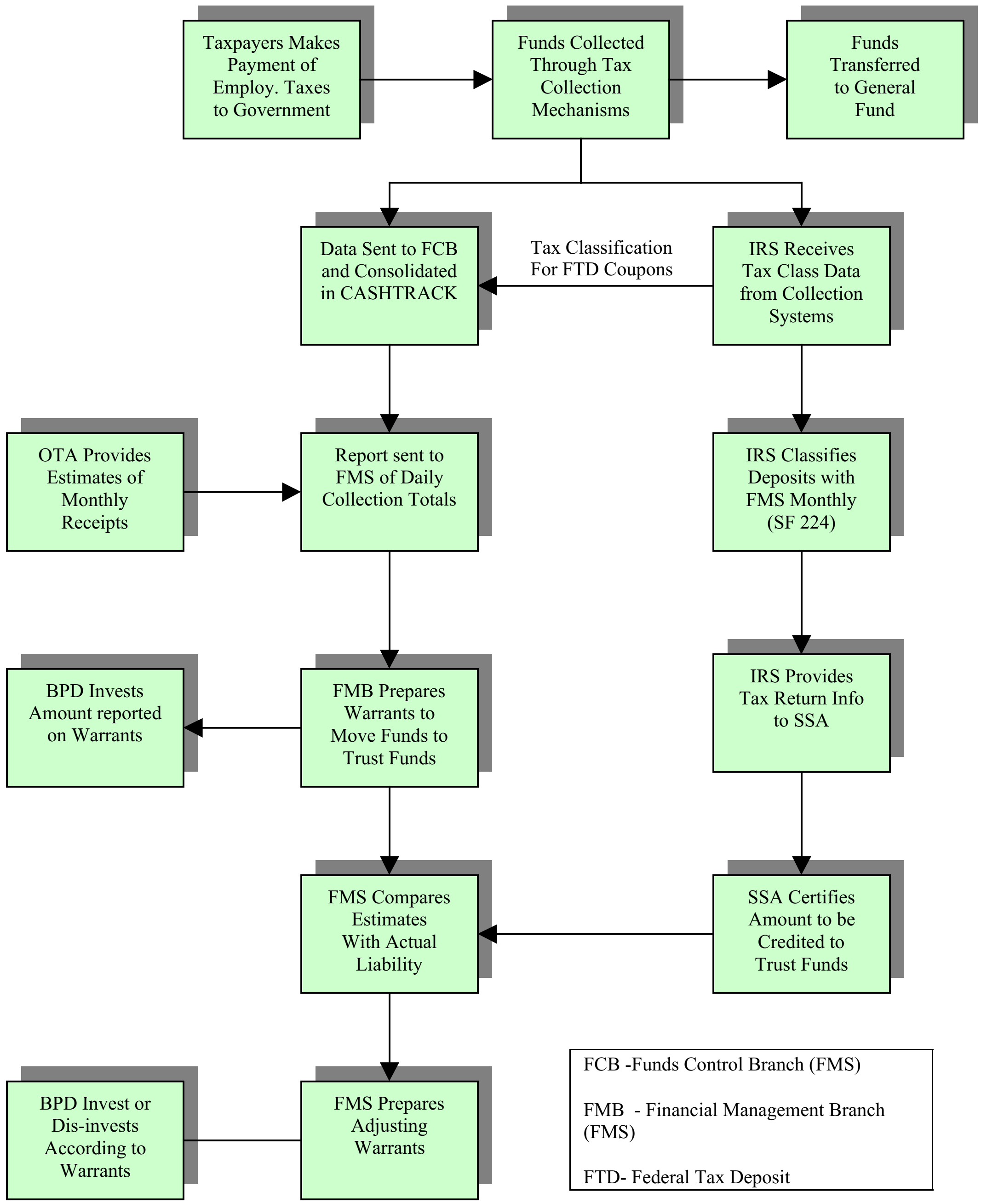
Redemptions from the Social Security Trust Funds are based upon program expenditures as accounted for by SSA, and other authorized agencies, which notify BPD of the expenditures. BPD, in turn, redeems securities and transfers funds to the agencies to cover these expenditures. Large redemptions to cover the benefit payments are made around the third of each month, and smaller redemptions are made throughout the month to cover cycled payments. Certain redemptions are delayed to afford the trust funds the benefit of the float on benefit payments paid by check. When funds are needed, securities with the shortest time to maturity are redeemed first; then, among securities with the same maturity, those with the lowest interest rate are redeemed first.

As the chief disbursing agent for the Government, FMS makes beneficiary payments from the trust funds, based on directions provided by SSA. In addition, FMS aids SSA in the recovery of erroneous payments to recipients, most notably in the case of deceased payees. Investment transactions (reported by BPD) and payment transactions (reported by SSA) are reported to FMS for entry into, and reconciliation with, the Treasury's central accounting system. FMS and BPD both publish periodic reports accounting for activity in Investment Funds including the Social Security Trust Funds.

Under the by-laws of the Board of Trustees of the Social Security Trust Funds, the Secretary of the Treasury is also the Chairman of the Board of Trustees, and is responsible for calling and chairing meetings of the Board of Trustees. He is also responsible for ensuring that the annual Trustee's Report on the financial status and operations of the trust funds is prepared and presented to Congress. The Office of Economic Policy supports the Secretary in his role as the Chairman of the Board for these funds.

The following chart provides a schematic depiction of the collections and distribution of Social Security deposits.

Chart 7 - The Collection and Distribution of Social Security Deposits



ROLE OF THE FEDERAL PROGRAM AGENCY

Although this study deals primarily with the roles and responsibilities of the Department of the Treasury, the Federal program agencies play a critical role in the administration of Investment Funds. The majority of the Investment Funds are managed directly by the program agencies,[16] and these agencies routinely interact with Treasury offices to direct the investment of moneys in the funds and the redemption of investments. The program agency is also responsible for determining the appropriate disbursements from the funds. The effective and efficient operation of Investment Funds is dependent on the program agency, as well as Treasury, performing their responsibilities accurately.

Treasury relies on these program agencies to perform their functions appropriately and to ensure that proper controls are established over the program uses of the Investment Funds. Treasury functions, in many cases, depend on instructions provided by the program agencies and on the agencies' internal accounting for the Investment Funds activity and their related programs. Treasury does not have the ability or the information to determine the accuracy of the agencies' information, or the appropriateness of transactions.

Specifically, the program agencies are responsible for:

General Responsibilities

- Program expertise, including determining current funding needs;
- Notifying BPD of individuals authorized to conduct transactions and any changes to the authorized personnel;
- Exercise appropriate control over Investment Funds;
- Determining the appropriate use for and disposition of the funds;

Establishment of Investment Fund Accounts

- Initiating the establishment of the Investment Fund account by requesting a Treasury Fund Account Symbol;

Funding of Investment Funds

- Verifying that sufficient fund balances are available for investment before placing an investment request with BPD;
- Providing adequate controls over the receipts;

Investing Activities

- Developing an investment strategy that meets the needs of the program (agency-managed Investment Funds);

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[16] For 21 active and two inactive Investment Funds, the Department of the Treasury is designated as the program agency. Programmatic responsibilities for these funds have been delegated to organizational units within Treasury other than BPD. These funds are considered agency-managed Investment Funds since the organizational units within Treasury perform the functions of the program agency as defined in this section. For example, the Exchange Stabilization Fund is considered an agency-managed fund, with the Office of the Assistant Secretary for International Affairs being the program agency.

- Review Treasury-developed investment strategy to ensure it meets the needs of the program (Treasury-managed Investment Funds);
- Submitting investment requests on a timely basis (agency-managed Investment Funds);
- Reviewing confirmation letters provided by BPD to ensure that investment requests were properly executed;

Redemption and Disbursement Activities
- Providing adequate controls over the disbursements;
- Submitting redemption requests on a timely basis (agency-managed Investment Funds);
- Submitting funding needs timely (Treasury-managed Investment Funds);
- Reviewing confirmation letters provided by BPD to ensure that redemption requests were properly executed;

Accounting and Reporting
- Accounting for receipts and disbursements at the appropriate level of detail;
- Monitoring, accounting for, and reporting the fund balances in the investment accounts;
- Providing financial statements in accordance with the Chief Financial Officers Act;
- Reporting program and financial activities to OMB;
- Accounting for investment and redemption transactions properly in the agencies' internal accounting systems and on accounting reports submitted to Treasury; and
- Reconciling account balances and related activity with the monthly account statements provided by FMS and BPD.

Working in concert, both the program agencies and Treasury must appropriately perform their duties to ensure the efficient and effective administration of Investment Funds.

INVESTMENT FUND POLICIES

In keeping with the Secretary's role as a key financial adviser to the President and manager of the public debt, the Secretary has a broad, overall responsibility in the area of Government investment activities, which has been affirmed in scores of statutes. Since the OASI Trust Fund was established in 1937, Treasury has built upon the evolving statutory requirements established for that fund and developed a number of policies and principles to guide and inform its investment decisions with respect to Investment Funds. The core of Treasury's longstanding investment policies has been encapsulated in language that Treasury has specifically developed to use in legislative proposals authorizing the investment of Government accounts or funds. It is Treasury's preference that the following investment language generally be used in all legislation establishing new funds or amending provisions governing existing funds, except for the Social Security and Medicare Trust Funds, and other major trust funds, which are invested in par value specials.

> The [head of the program agency] may request the Secretary of the Treasury to invest such portion of the fund as is not, in the [head of the program agency's] judgment, required to meet the current needs of the fund. Such investments shall be made by the Secretary of the Treasury in public debt securities with maturities suitable to the needs

of the fund, as determined by the [head of the program agency], and bearing interest at a rate determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturity.

The preferred language clearly provides guidance to both the Secretary of the Treasury and the head of the program agency in managing the particular Investment Fund, and provides authorization for the fund to invest in the Treasury preferred investment vehicle. To elaborate, the following principles are integrated into this language.

- **As a general rule, the Secretary of the Treasury, at the request of the head of the program agency involved, should invest excess moneys in Investment Funds in the special Treasury nonmarketable securities, which have been specifically designed for this purpose.** This principle recognizes that as manager of the public debt, the Secretary must be the party that actually does the investment of such Government moneys since these investments are, in effect, Government loans made by the Investment Funds to the issuer of the securities, which is generally the Treasury general fund. Investment of these funds in nonmarketable Treasuries offers a number of advantages for both the program agency and the Treasury. Nonmarketable Treasury securities, like marketable Treasuries, provide Investment Funds with maximum safety, a wide range of maturities, and prompt liquidation prior to maturity (if needed). Nonmarketable securities also prevent Investment Funds from disrupting the public market for Government debt, reduce transaction costs for both the program agency and the Treasury, increase liquidity for the Investment Fund, and allow for better Government (including Treasury) oversight. The types of Treasury special securities and their respective advantages are discussed in the "Investment Options" section.

- **The role of the program agency is defined.** The program agency is the acknowledged expert on the program financed by the Investment Fund. Therefore, it is clearly the role of the program agency to: (1) determine the amount of excess moneys (i.e., moneys not needed to meet the current needs of the fund) to be invested in Treasury special securities; (2) select maturities for the Treasury special securities that are suitable to the needs of the fund; and (3) request that the Secretary make the investments. It is assumed that the Investment Fund will hold securities to maturity, or until the program agency needs the moneys to meet current needs. Therefore, program agencies should not "play the market"; i.e., manipulate their portfolios in an attempt to anticipate interest rate movements.

In addition to the policies integrated in the preferred language, Treasury has developed a number of other policies, which we continue to believe are appropriate as guiding principles for the proper use of investment authority.

- **As a general principle, the appropriation process is the appropriate means by which to finance Government programs**. Investment authority should not be used to augment an agency's appropriation and circumvent the normal budget/appropriations process. An appropriation is not a sum of cash that is available to be invested. Instead, it is simply a limit on the amount of money that a Government agency or account may spend for its authorized purposes. For this reason, Treasury consistently opposes legislative proposals that would provide for the investment of appropriations or grant moneys. Allowing a Government agency or entity to invest its appropriations or idle cash balances provides that agency with a hidden subsidy in the form of interest income since this income is provided outside of the budget appropriation process. Treasury recommends that the amount of financing needed for an authorized purpose be specifically determined and appropriated directly.

- **Government entities with authority to borrow from Treasury should be prohibited from borrowing for investment purposes unless such transactions are required to fulfill the entities' statutory program purposes.** Government entities should liquidate their investments before borrowing from the Treasury. To the extent that Government entities with borrowing authority earn any arbitrage income, they are required to return the income to the Treasury.

- **Government entities should invest only moneys that have been deposited and credited to the general fund of the Treasury.** Conversely, when moneys are disbursed from the general fund on behalf of an Investment Fund, the necessary redemption of security holdings of the fund must take place first so that sufficient moneys are available to the general fund to cover the disbursements. This policy ensures equal treatment between the investing fund and the general fund.

The Office of the Assistant Secretary for Financial Markets, in keeping with its Federal debt management responsibilities, has primary responsibility for the development and interpretation of these policies. A complete discussion of Investment Fund policies, their justifications, and current issues relating to these policies is found in Working Paper 5, "Trust and Investment Fund Policies," of the Investment Fund Review – Working Papers.

INVESTMENT OPTIONS

In order to facilitate fund investments in Treasury securities and to avoid any potential market disruptions from such investments, Treasury has developed two types of non-marketable special-issue Treasury securities for fund investments: (1) par value specials and (2) market-based specials, which include Treasury bills, notes, bonds, inflation-indexed securities, overnight specials, and zero-coupon bonds. When a fund is invested in these special securities, the securities are maintained in book-entry form.[17]

Par value Specials – Par value specials are non-marketable securities that bear interest rates established according to statutory formulas, generally based on the average market yield on outstanding Treasury securities with specified maturities. They are purchased and redeemed at par or face value, so there are no premiums or discounts when purchased, and there are no gains or losses when sold. Thus, there is significantly less market risk involved as a result of interest rate shifts with investing in par value specials. Par value specials are only available to Investment Funds when the statute governing a particular fund specifically authorizes them to be issued to the fund and provides the interest rate formula for them.

[17] Under the Social Security Independence and Program Improvements Act of 1994, Treasury is required to issue paper instruments evidencing the Treasury special securities issued to the Social Security Trust Funds.

The Social Security Trust Funds, Medicare Trust Funds, and a limited number of other Investment Funds are authorized by statute to hold par value specials. As of July 31, 2000, 21 of the 214 Investment Funds are invested in par value specials. This represents $1.843 trillion of the $2.214 trillion invested on behalf of the Investment Funds. Par value specials eliminate capital losses when securities are redeemed after interest rates have risen, and also eliminate capital gains when securities are redeemed after interest rates have fallen. The legislative authority for an Investment Fund to use par value specials represents a policy decision that the Investment Fund should be protected from capital risk while still receiving a long-term interest rate that generally exceeds the short-term interest rate (because the yield curve is usually upward-sloping).

Par value specials could provide an opportunity for Investment Funds to manipulate purchases and redemptions to obtain a higher rate of return. At a time of high interest rates, an Investment Fund could redeem par value specials with a low interest rate at no capital loss and exchange them for securities with a higher interest rate. However, institutional safeguards prevent this sort of manipulation. For example, the Boards of Trustees of the Social Security and Medicare Trust Funds have established a policy that Trust Fund assets can be redeemed prior to maturity only to meet program costs. Treasury has established procedures so that redemption of securities prior to maturity follows a specified, hierarchical order (see box on page 16).

The Social Security Act specifies that par value specials are the preferred investment vehicle for the Social Security and Medicare Trust Funds.[18] Investment of these Trust Funds in market-based specials would require legislation.

Market-Based Specials - Market-based specials (MKs) are non-marketable Treasury securities issued directly to an Investment Fund and their interest rates and maturities generally mirror the interest rates and maturities of particular Treasury-related securities trading in the Government securities market. MKs include Treasury bills, notes, bonds, and inflation-indexed securities; overnight specials; and zero-coupon bonds. A MK may generally be purchased or sold at any time during the life of the existing marketable security to which each MK is indexed.

- BILLS, NOTES, BONDS, AND INFLATION-INDEXED SECURITIES - MKs in the form of bills, notes, bonds, and inflation-indexed securities mirror the interest rates and maturities of particular Treasury-related securities trading in the Government securities market. Treasury bills are short-term securities with maturities of 13, 26, and 52 weeks. Treasury notes are intermediate securities with maturities ranging from greater than one year to 10 years. Treasury bonds are longer-term securities with maturities greater than 10 years. Inflation-indexed securities are Treasury securities whose principal amounts are adjusted for inflation. The Office of Market Finance Prices provides prices for these MKs based on actual current trading on the secondary market.

[18] The Social Security Act also authorizes the Secretary to invest these funds in other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, if the Secretary determines it is in the "public interest" to do so. The DI Trust Fund holds a small number of marketable Treasuries.

- OVERNIGHT SECURITIES - An overnight security is a MK security that matures on the business day following purchase. The Federal Reserve Bank of New York determines the overnight investment rate on a daily basis, using rates on overnight repurchase agreements against general U.S. collateral. This rate is provided daily to Treasury. This security is available for investment fund receipts received after the cut-off for purchase of MKs (11:00 am).

- ZERO-COUPON BONDS - Zero-coupon bonds (ZCBs) are a type of MK bond (i.e. a security having a maturity greater than 10 years) where the investing agency does not receive periodic interest payments. Instead, the investing agency purchases the bond at a discount to its maturity value, and the difference between the maturity value and the purchase price represents the interest. The price for ZCBs is the present value of the future payments due at maturity, where the discount rate used to determine the present value is based on the mean of the prevailing bid and ask yields on specified marketable Separate Trading of Registered Interest and Principal of Securities (STRIPS) on the day of issuance of the security. Currently, ZCBs are available only to program agencies which have entered into a memorandum of understanding with Treasury establishing the terms and conditions for investment in ZCBs.

Since their creation in late 1974, MKs have been the Treasury's preferred investment vehicle for Investment Funds (except for the major funds, which are invested in par value specials as discussed above). The preferred investment language discussed above specifically authorizes the Secretary to invest excess moneys in the Investment Funds in MKs and is generally recommended by the Department for use in legislative proposals to create Investment Funds or amend the investment provisions governing existing funds. As of July 31, 2000, 193 of the 214 Investment Funds are invested in MKs. This represents $371 billion of the $2.214 trillion invested on behalf of the Investment Funds.

Treasury has consistently opposed legislative proposals to issue par value specials to funds other than the major ones. There are three reasons for this policy position. First, MKs ensure that Investment Funds are not advantaged or disadvantaged relative to non-governmental lenders to the Treasury. The Investment Funds receive the same interest rates and are subject to the same market gains and losses.

Second, MKs prevent Investment Funds from manipulating redemptions to obtain a higher return, as discussed on page 22. Because redeeming MKs, unlike par value specials, can result in a capital gain or loss, there is no advantage in redeeming a security with a low interest rate to purchase another security with a higher interest rate.

Third, the par redemption feature is largely unnecessary because the Treasury offers MKs in a wide range of maturities, from overnight to thirty years, to meet Investment Funds' cash flow needs. If Investment Funds carefully select a proper portfolio of maturities, they should have little need to redeem MKs prior to maturity.

CONCLUSIONS AND RECOMMENDATIONS

In providing this report on Treasury's roles and responsibilities for Investment Fund administration, the review has defined the current processes conducted by the Department, and catalogued the Investment Funds that are active and maintain balances as of March 1, 2000. The complete discussion of Investment Funds operations within the Department and the catalog of Investment Funds is contained in a companion volume to this report, Investment Funds Review – Working Papers.

We have concluded that the Department has exercised appropriate diligence in the performance of its duties, as currently defined. However, the Department should undertake a number of administrative improvements to improve on-going operations and strengthen Treasury's control and oversight of the administration of Investment Funds.[19] These improvements include a more active Departmental monitoring of Investment Fund accounts and overall operations, standardized agreements between Treasury and the program agencies, and stronger internal controls. The discussion below groups the specific recommendations into six general proposals to strengthen or enhance Treasury's Investment Fund administration. The detailed recommendations that define and support the implementation of these broader proposals, along with other specific recommendations, are contained in the attached "Detailed Recommendations of the Investment Fund Review Working Group (Supplement to the Report to the Secretary)."

Administrative Improvements

1. Improve Treasury's general administration and coordination of Investment Fund operations.

This report demonstrates that a number of offices within the Treasury Department have critical functions in Treasury's formulation of policy concerning Investment Funds and the operation of those funds. The existing authorities and responsibilities of these offices involved in Investment Fund policy formulation and operations should remain and continue. However, due to the complexity of these functions, we should establish one office within Treasury to help ensure effective integration into the operations of Investment Funds of policy formulation. The staff would develop a comprehensive understanding of the overall Treasury responsibilities and the role of each Treasury office in Investment Fund administration. By acquiring and maintaining technical expertise in the overall process, including investment policies, strategies and practices, the staff of the office would facilitate the effective operation of the Investment Funds. The role of the office would be to assess operational issues and the impact of policies on fund operations, coordinating with the Treasury offices responsible for policy formulation to provide support to those offices on the operational aspects of fund policies. The office also will serve a similar function with respect to agencies with programmatic responsibilities. The purpose of this office

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[19] Specific problems examined during the course of this review include incorrect transfers to the Highway Trust Funds, the classification and distribution of excise taxes to trust funds, and the investment of incorrect amounts by the Medicare Trust Funds. Detailed discussions of these and other open and recently resolved issues that led to many of these recommendations are contained in Working Paper 6, "Open and Recently Resolved Issues," of the Investment Funds Review – Working Papers.

is to enhance and support, not replace or supercede, the existing authorities or responsibilities of offices currently involved in Investment Fund administration, thereby supporting the Department in carefully and effectively executing its responsibilities.

2. Clearly define Treasury and program agency roles and responsibilities for Investment Fund management through standardized agreements and increased agency education.

Participation and cooperation between the program agencies and Treasury are crucial for the effective operation of Investment Funds. Therefore, Treasury should provide program agencies with a standard agreement, defining policies and practices and allocating roles and responsibilities. In addition, Treasury should use customer user group forums and face-to-face agency meetings to increase communications and provide additional educational opportunities.

3. Increase Treasury's monitoring of individual investment accounts to identify and resolve unusual or problem situations early.

Operationally, Treasury should more closely monitor investment and transfer accounts to identify uninvested or negative balances. This recommendation is not intended to relieve the program agency of its existing responsibilities for accounting for its Investment Fund. However, taking a more active approach to account monitoring would allow Treasury to assist the agency in identifying potential problems earlier and to take steps to resolve them before they have a significant financial impact on either the Investment Fund or the Treasury general fund.

4. Build a unified and comprehensive Investment Funds database, containing detailed information on all 214 Investment Funds.

Information is critical to effective Investment Fund administration. To achieve effective information management, Treasury should establish a single database to index and retrieve Investment Fund information in the possession or control of the Department. The database would include legislative, legal, and policy documents related to each of the Investment Funds, along with correspondence and other background materials to provide historical and current information for the evaluation of each fund's status and the analysis of issues.

5. Revise procedures for the monthly allocation of excise tax revenues to excise tax Investment Funds.

The allocation of excise tax receipts to the excise tax trust funds remains a complex process, requiring certifications and adjustments months after the initial deposit of taxes is made. Currently, monthly transfers to the excise tax trust funds are based on forecasts produced for the Administration's budget. To simplify and make the process easier to audit, actual excise tax receipts could be allocated to the trust funds on a regular basis. Actual receipts would be apportioned to each trust fund based on historical data. Although this process would not eliminate the need for subsequent adjustments based on the taxpayers filing of their tax return, it should make the process more transparent and potentially make adjustments less volatile.

6. Improve Management of Internal Controls over Investment Funds Processes.

To ensure that all offices maintain appropriate internal controls for their processes relating to Investment Fund administration, Treasury should develop, document, and implement review procedures over these processes. Specifically, Treasury should require each office perform a review of all procedures, calculations, certifications, and adjustments to ensure that they are properly documented and supported. In addition, Treasury should evaluate the Investment Funds administration processes as a unit to ensure that appropriate management controls for these processes are in place throughout the entire process.

Legislative Solutions

1. In cooperation with the Department of Health and Human Services, pursue the legislative authority to fix the consequences of a clerical error involving the Medicare Trust Funds.

As the result of clerical errors made during the last six months of Fiscal Year 1999, incorrect levels of assets were invested in the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. The legislative solution would provide Treasury with the authority to return these funds to the positions they would have been in if the errors had not occurred. (Note - During the course of this review, legislation to resolve this issue was proposed by Treasury, enacted by the Congress, and signed into law. Additionally, appropriate adjustments executing the legislation were completed in August 2000.)

2. Standing authority to correct the impact of clerical errors.

The problem with the Medicare Trust Funds discussed above raises the issue as to whether Treasury should have permanent authority to correct the impact of clerical errors. Under current authorities, Treasury has the ability to correct the error itself but not to undo the effect of the error on the fund's balance and investment holdings. While standing authority would expedite and simplify the full correction of errors that are clearly clerical in nature, this authority should be limited to those that are immaterial. Successful implementation of this recommendation is contingent on our ability to clearly identify the types of errors considered clerical and the criteria for determining materiality. Errors would need to be documented by the program agency, certified by both the program agency and Treasury, and reported to Congress at the time they are corrected. Errors of a material nature would still require legislation to authorize the compensating corrections.

3. ***In conjunction with the Department of Labor, Treasury drafted legislation to allow for the refinancing of the Black Lung Disability Trust Fund (BLDTF) debt and to extend authority to collect the excise tax on coal.***

The BLDTF is facing a growing indebtedness problem. When the cash balance in the Trust Fund is not sufficient to cover expenses, an advance is transferred from a special Department of Labor (DOL) appropriations account to the BLDTF (repayable to Treasury). Trust Fund revenues are not sufficient to repay its debt or to service the interest on that debt and, due to the high debt burden, the BLDTF will never become solvent, even after all of the beneficiary population is deceased. During the course of this review, Treasury and DOL drafted a proposal that would refinance the current debt and extend the excise tax. This proposed legislation was adopted into the President's Fiscal Year 2002 Budget.

Areas Requiring Further Study and Analysis

During this review, the working group identified several topics or issues that were either outside the scope of the review or, due to the complexity of the issue, required further analysis that could not be completed within the timeframe for this study. Discussion and analysis of the following issues should continue.

1. ***Study the impact of the shrinking issuance and supply of Treasury securities on Investment Funds.***

There are several issues relating to the long-term evaluation of investment options for Investment Funds that deserve further study. Future sustained budget surpluses may lead to a further decline in the issuance of Treasury securities. The shrinking supply of Treasury securities may require an evaluation of alternatives for benchmark pricing of non-marketable securities that are issued to the Investment Funds.

2. ***Study long-term options to improve the process for allocating receipts to excise tax trust funds.***

This remains one of the most complex areas of Investment Fund administration. Long-term analysis is needed to determine methods to improve the timeliness and accuracy of tax classification information received from taxpayers at the time of deposit and to study the options to motivate or require taxpayers to break out excise taxes by tax class to provide accurate information to credit the trust funds.

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Detailed Recommendations of the Investment Fund Review Working Group

Supplement to the Report to the Secretary

Section A - Recommended enhancements or improvements to the administration of Investment Fund operations within the existing legislative framework.

Improve General Administration and Coordination of Investment Fund Operations

The administration of Investment Funds within the Department is a complex operation involving many different offices and bureaus. However, with the exception of the Bureau of the Public Debt's Division of Federal Investment (the organization that maintains the investment accounts and performs the investment and redemption activity), no office within the Department has Investment Funds as a primary part of its mission. With the increasing amount of Government assets in these funds, and the visible nature of Investment Accounts, the Department needs to devote more resources to this critical function. The following recommendations will ensure department-wide coordination of Investment Fund issues, facilitate communications between offices, and provide a recognized staff of experts on the range of Treasury's Investment Fund operations.

1. **Establish one office within Treasury with responsibility for the programmatic coordination and oversight of Treasury Investment Fund administration, including operational policies, practices and procedures.** This office, the Investment Fund Management Office (IFMO), would be located within the Departmental Offices (Office of the Fiscal Assistant Secretary) and consist of a staff of 5 FTEs. The purpose of this office would be to:

    - Provide a single point of contact for Investment Fund issues, problems, and operational policy questions, and coordinate the resolution of these questions throughout the Department;
    - Ensure that new and amended policies and practices that affect Investment Fund administration are coordinated and reviewed by the appropriate offices with Investment Fund responsibilities;
    - Assure that the separate Investment Fund operations of the Department are performed in an integrated manner;
    - Support the work of other parts of Treasury in fulfilling Investment Fund responsibilities;
    - Provide a forum for immediately addressing and remedying operational issues;
    - Coordinate the activities of the Excise Tax Trust Fund Working Group;
    - Participate with other Treasury offices in developing, commenting on, and monitoring the progress of legislative proposals related to Investment Funds;
    - Monitor the establishment of new investment funds;

- Acquire an awareness of the basic purposes and authorities of each Investment Fund;
- Coordinate, as appropriate with other Treasury and Federal agencies on Investment Fund matters; and
- Ensure that recommended improvements of the report are implemented.

2. **As appropriate, provide assistance and information to program agencies for the development and timely implementation of their Investment Fund strategy consistent with Treasury policies.** Treasury should develop and retain greater expertise in investment management to provide education and information to Investment Fund program agencies on investments. As appropriate, Treasury should offer this expertise to program agencies (especially those responsible for newly established Investment Funds) to insure that they are aware of Treasury's longstanding investment fund policies and understand their options consistent with those policies.

Clearly Define Responsibilities and Standard Agreements

Treasury and the program agencies need to clearly understand their roles and responsibilities for the management and administration of Investment Funds. To ensure that all parties are aware of their respective duties, Treasury should establish standardized agreements with all program agencies. The Bureau of the Public Debt should develop and administer these standardized agreements which should address such issues as standard practices for Investment Accounts, policies and instructions for the investment and redemption of securities, and reporting and accounting responsibilities. The following recommendations all support this objective.

3. **Develop standard agreements or blanket Memoranda of Understanding (MOUs) for Investment Funds which address the following:**

   - Respective responsibilities for account administration and monitoring;
   - Standard policies and practices;
   - Investment practices (for agency-managed funds);
   - Dis-investment/redemption policies;
   - Authorized investment options (e.g., MK bills, bonds, or notes); and
   - Reporting and accounting responsibilities.

   BPD should determine the scope and conditions of the agreements and assess Treasury's options as to how to obtain standard agreements with the program agencies, (e.g. individually signed documents, operating circular).

4. **Improve communications between investing agencies and BPD to provide a clearer understanding of the roles and responsibilities of each party.** In conjunction with the development of the standard agreements, provide agencies with information and training to ensure they fully understand their responsibilities, and the services provided by Treasury (BPD). Treasury can accomplish this by:

- **Using BPD's annual program agency meetings to provide education and information to Investment Fund agencies.** Continue to use the pre-existing annual meeting as a user group forum to address issues, provide instruction, and educate agencies on standardized policies and practices.
- **Undertaking a series of face-to-face meetings with the major customer agencies.** BPD should meet with their major agencies, including the agencies for the Treasury-managed Trust Funds, on a regular basis to discuss fund specific issues and problems, and to provide assistance and guidance in meeting their responsibilities.
- **Describing Treasury's and the Federal agencies' roles in Treasury policy manuals, MOUs, or other standard documents.** The Investment Fund Study identifies several areas where Treasury and the Federal agencies have unique responsibilities in administering the investment and trust funds. Treasury should develop a policy guide or body of policies and regulations to explain these responsibilities.

Account Monitoring

The monitoring of Investment Funds account balances remains a primary responsibility of the program agency. However, a more intensive monitoring of Investment Fund account balances by Treasury would provide a second line of review to detect Investment Funds that are over- or under-invested. This monitoring should reduce the number of occurrences of situations similar to the recent Medicare Trust Funds issue, where clerical errors went undetected for six months, causing the balances in the Medicare accounts to be incorrectly invested.

5. **Conduct regular reviews of trust fund transfer accounts and monitor fund balances for uninvested or negative balances.** Treasury should notify an agency when its account has an uninvested or negative balance over a specified threshold. BPD should assess the size of this task and the resources needed to effectively monitor transfer accounts, beginning with the Treasury-managed funds.

   Whether the Treasury has the authority to develop and publish (in the standing agreements) a standing policy concerning charging of interest on negative balances in the fund balance or transfer accounts deserves further consideration.

6. **Document procedures for closing adjustments to fiscal year financial statements for Investment Funds.** Treasury should formally describe the rules it uses in determining closing adjustments to trust fund accounts (e.g., the Highway Trust Fund). The description should be circulated among program agencies, the Office of Management and Budget, and relevant Congressional Committees.

   The documentation should describe:
   - The schedule for known post-fiscal year-end adjustments, e.g., the schedule for correcting adjustments resulting from IRS certifications.

- The expected release dates for final unaudited financial statements and for final audited statements.
- The normal procedure for determining materiality levels and opportunities for program agencies to appeal these levels.
- When and under what circumstances would material changes be made.

Unified Database

Easy access to all relevant documents and information is critical to efficient and effective Investment Fund administration.

7. **Build a unified and comprehensive Investment Funds Database, containing detailed information on all 214 Investment Funds.** To achieve effective information management, BPD should establish a single database to index and retrieve Investment Fund information in the possession or control of the Department. The database would include legislative, legal, and policy documents relating to each of the Investment Funds, along with correspondence and other background materials to provide historical and current information for the evaluation of each fund's status and the analysis of issues. This database would be available to all Treasury offices with Investment Fund responsibilities.

Allocation of Receipts

The allocation of excise tax receipts to the related Investment Fund accounts remains one of the more complex and labor-intensive processes within Investment Fund administration. The subject of frequent reviews by the General Accounting Office, this process relies heavily on the use of estimated figures to distribute funds to the Investment Funds. The recommendation that follows provides a short-term solution to make this process easier to audit and the adjustments potentially less volatile.

8. **Revise Procedure for Treasury's Monthly Trust Fund Transfers.** Currently, monthly transfers to the excise tax trust funds are based on forecasts of estimated receipts produced for the Administration's budget. To simplify the process, historical data could be used to apportion actual (current month) excise tax receipts to the related trust funds on a regular basis. However, without imposing more stringent reporting requirements on the taxpayers, this process would not eliminate the need for subsequent adjustments based on certified tax liabilities from the taxpayers' filed returns. It would base the distribution process on actual receipts, rather than estimated figures, and make this process more mechanical.

The Excise Tax Trust Fund Working Group should analyze this issue further to refine and develop a final detailed recommendation and report to the Secretary within six months of the submission of this report. This recommendation should assign the responsibility for collecting the actual excise tax receipt information and applying the distribution formulas to the receipts, and determine the timeframe for making the allocations to the excise tax trust funds.

In the future, the increased use of electronic reporting should result in greater accuracy and more timely certification. An analysis for achieving this potential in the long-term is an area recommended for further study.

Internal Controls

More stringent reviews and tighter controls will ensure the integrity of Investment Fund administration. Looking at the Investment Fund administration process, both in detail and in its entirety, would also be in keeping with the intent and requirements of the Federal Managers Financial Integrity Act of 1982.

9. **Improve Management of Internal Controls over Investment Funds Processes.** Treasury should ensure that all offices, in order to maintain appropriate internal controls over Investment Fund administration, develop and document procedures, review these procedures regularly. Specifically, Treasury should require each office to perform a detailed review of all procedures, calculations, certifications, and adjustments to ensure that they are properly documented and supported. In addition, Treasury should evaluate the Investment Funds Administration processes as a unit to ensure that appropriate management controls for these processes are in place throughout the entire process.

Miscellaneous Specific Recommendations

These recommendations address specific issues discussed in Chapter 6, "Open and Recently Resolved Issues" of the Investment Funds Review - Working Papers.

10. **Work with program agencies for the Treasury-managed Investment Funds to obtain acceptance of a standard level of audit coverage for the funds.** The type of audit coverage provided for these Investment Funds should be indicative of the Secretary's responsibilities and should provide the necessary assurances to the program agencies taking into account all Treasury functions. In addition, Treasury needs to work with the program agencies to better define roles and responsibilities with regard to the audit process and to ensure there is a clear understanding how this process compliments the legislatively required agency level audits.

11. **Adopt a contingency for obtaining investment prices, if Departmental Offices are not open or unable to provide pricing for investment transactions.** If the Office of Market Finance is not available, BPD will obtain pricing files directly from the Federal Reserve Bank of New York, which will provide the bid prices that would have been sent to the Office of Market Finance. BPD will apply the proper formulas to produce the ask and mean price quotes for the Government Account Series (GAS) securities. This contingency plan was developed and adopted during the course of this study.

12. **Determine the appropriate program office for the Cheyenne River Sioux Tribe and Lower Brule Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Funds.** The Water Resources Development Act of 1999 (the Act) established two trust funds, the Cheyenne River Sioux Tribe and Lower Brule Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Funds (the Trust Funds). In the Act, certain investment and program oversight responsibilities, which are usually placed with an agency with relevant program expertise, are assigned to the Secretary of the Treasury. To date, no program area within Treasury has assumed or has been assigned responsibility for the Trust Funds. The Trust Funds have been established and the deposited moneys have been invested in overnight securities pending the development of an investment strategy suitable to the needs of the program. The Office of Government Financial Policy has agreed to develop a long-term investment strategy for the two tribes. Treasury should determine the appropriate program office within Treasury for these funds as soon as possible.

Section B - Recommendations for enhancing the legislative structure of Trust Fund administration and management.

1. **In cooperation with the Department of Health and Human Services, pursue the legislative authority to fix the problem of misallocated and lost interest to the Medicare Trust Funds.** As the result of clerical errors made during the last nine months of Fiscal Year 1999, incorrect levels of assets were invested in the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. The legislative solution would provide Treasury with the authority to return these funds to the positions they would have been in if the errors had not occurred. (Note - During the course of this review, legislation to resolve this issue was proposed by Treasury, enacted by the Congress, and signed into law. Additionally, appropriate adjustments executing the legislation were completed in August 2000.)

2. **Standing authority to correct the impact of clerical errors.** The problem with the Medicare Trust Funds discussed above raises the issue as to whether Treasury should have permanent authority to correct the impact of clerical errors. Under current authorities, Treasury has the ability to correct the error itself but not to undo the effect of the error on the fund's balance and investment holdings. While standing authority would expedite and simplify the full correction of errors that are clearly clerical in nature, this authority should be limited to those that are immaterial. Successful implementation of this recommendation is contingent our ability to clearly define the types of errors considered clerical and the criteria for determining materiality. Errors would need to be documented by the program agency, certified by both the program agency and Treasury, and reported to Congress at the time they are corrected. Errors of a material nature would still require legislation to authorize the compensating corrections.

3. **In conjunction with the Department of Labor, Treasury drafted legislation to allow for the refinancing of the Black Lung Disability Trust Fund (BLDTF) debt and to extend authority to collect the excise tax on coal.** The BLDTF is facing a growing indebtedness problem. When the cash balance in the Trust Fund is not sufficient to cover expenses, an advance is transferred from a special Department of Labor (DOL) appropriations account to the BLDTF (repayable to Treasury). Trust Fund revenues are not sufficient to repay its debt or to service the interest on that debt and, due to the high debt burden, the BLDTF will never become solvent, even after all of the beneficiary population is deceased. Treasury and DOL drafted a proposal that would refinance the current debt and extend the excise tax. This proposed legislation was adopted into the President's Fiscal Year 2002 Budget.

Section C - Areas Requiring Further Study and Analysis

During this review, the working group identified several topics or issues that were either outside the scope of the review or, due to the complexity of the issue, required further analysis that could not be completed within the timeframe for this study. Discussion and analysis of the following issues should continue.

1. **Study the impact of the shrinking issuance and supply of Treasury securities on Investment Funds**. There are several issues relating to the long-term evaluation of investment options for Investment Funds that deserve further study. Future sustained budget surpluses may lead to a further decline in the issuance of Treasury securities. The shrinking supply of Treasury securities may require an evaluation of alternatives for benchmark pricing of non-marketable securities that are issued to the Investment Funds.

2. **Study long-term options to improve the process for allocating receipts to excise tax trust funds.** This remains one of the most complex areas of Investment Fund administration. Long-term analysis is needed to determine methods to improve the timeliness and accuracy of tax classification information received from taxpayers at the time of deposit and to study the options to motivate or require taxpayers to break out excise taxes by tax class to provide accurate information to credit the trust funds.

3. **Study if issuing only par value securities to the Airport and Airways Trust Fund (AATF) continues to meet the public interest test.** Further assessment is needed to determine whether the par value securities currently held by the AATF should be exchanged for market-based specials; the related accounting issues; a comparison between par value and market-based rate of return over the life of the fund; and how to coordinate the policy changes, if any, with the Federal Aviation Administration and Congress.

4. **Develop a structured policy for overnight investments.** Overnight investment securities were designed as an investment for funds received after the cut-off for purchase of MKs (11:00 am) or for short-term investment of moneys needed as ready cash. However, the pricing of overnight specials makes them very attractive to program agencies and a number of agencies use overnights for a major share of their investment portfolios. Treasury should study whether it is necessary to limit the use of overnights. Options include (1) altering the rate on overnights to bring it in line with longer-term investments; (2) restricting the availability of overnights; or (3) altering the price and limiting the availability.