

T-918

AUDIT REPORT

Office of Inspector General

INVESTMENT AND OTHER FUND
MANAGEMENT PRACTICES WITHIN THE
FINANCIAL MANAGEMENT SERVICE



Department
of the
Treasury

No. OIG 86-63

May 19, 1986

WNRC, RG 56
AN 96-39, Box 11
Folder E

E.21



DEPARTMENT OF THE TREASURY
WASHINGTON

MAY 19 1986

MEMORANDUM TO: William E. Douglas, Commissioner
Financial Management Service

FROM: Director of Audit (FMS)
Office of Inspector General

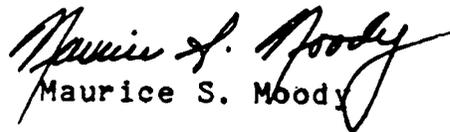
SUBJECT: Audit Report on Investment and Other Fund
Management Practices Within the Financial
Management Service

The attached report presents the results of our audit on the Financial Management Service's (FMS) operation of the Treasury investment program. Overall, FMS' investment program is operating with a high degree of accuracy in processing investment transactions.

However, we believe that improvements can be made in the program's internal controls and adherence to generally accepted government accounting principles. These areas include establishing more comprehensive procedures, adopting a classification of investment accounts, establishing a legislative authority file, and pursuing a joint automation effort with the Bureau of Public Debt. In addition, we recommended that FMS request an opinion from the General Accounting Office (GAO) on whether the Treasury investment program should be classified as an accounting system or subsystem subject to the standards for government accounting systems and Section 4 of the Federal Managers' Financial Integrity Act (FMFIA).

FMS' managers agreed to take corrective actions on all of our recommendations with the exception of seeking an opinion on the accounting system or subsystem classification. In their opinion, the investment operation is an assessable unit subject to FMFIA Section 2 internal control reviews only. However, GAO is currently conducting a review of Trust Funds and Treasury's investment procedures, and FMS' managers anticipate that GAO will concur with their position.

Copies of this report are also being sent to the Assistant Commissioners and other affected parties.


Maurice S. Moody

Attachment

91-258, Title II, 208(a-f), requires the Secretary of the Treasury to invest these monies only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the U.S. In general, Congress stipulated that most funds invest in non-marketable government securities. (See appendix III.) Congress has, in the past, permitted some funds to invest in marketable government securities, and a few have done so. Monies are no longer being invested in marketable securities, but there are still some marketable holdings from previous transactions.

Approximately two percent of the fund monies are invested in marketable securities. The remaining 98 percent of the monies are invested in non-marketable securities. (See appendix IV.) Both types of securities are reported as a part of the national debt in The Monthly Statement of the Public Debt.

✓ Treasury's Investment Program

The Government Account Series portion of non-marketable government securities is not available to the general public for investment. The Government Account Series can only be purchased with funds from government accounts and funds. The Fiscal Assistant Secretary administers the Government Account Series through both FMS and BPD by assigning FMS duties much like those of a stockbroker and assigning BPD duties much like those of a

registrar and transfer agent. FMS takes and performs the necessary computations on the investment or redemption orders for the Government Account Series securities from the managing trustees and BPD records and reports on those investments. Most managing trustees make their investment or redemption order requests by telephone, but all follow-up or precede their requests with a letter.

Managing trustees that are required to invest in obligations of the United States, guaranteed as to both principal and interest, invest in a non-marketable government security called a par value special. Par value specials are almost identical to Treasury Certificates. Managing trustees required to invest in obligations of the United States that are guaranteed only as to interest may invest in non-marketable government securities called market-based (MK) bills or notes and bonds. (See appendix III.) MK bills mature in less than one year, while MK notes and bonds mature in six months or more and carry a higher rate of interest than MK bills. MK bills, notes and bonds are identical to Treasury marketable securities called Treasury bills, notes and bonds. MK bills, notes and bonds, like Treasury bills, notes and bonds, are not guaranteed as to principal because they are purchased at a premium or a discount. Although interest earnings are credited semiannually, the interest rate, or discount factor, is obtained from the Federal Reserve Bank of New York, which calculates the rate based on a composite of rates obtained from five government securities dealers.

In general, large funds such as the Unemployment Trust Fund, the Federal Disability Insurance Trust Fund and the Civil Service Retirement Fund are required to invest in par value specials. In 1984, 63 percent of the investment and redemption requests received from managing trustees were for par value specials, and 36 percent of the requests were for MK bills, notes and bonds. One percent of the requests were for marketable obligations such as Treasury bonds, bills and notes.

The Fiscal Assistant Secretary monitors the national debt very closely in order to assure the Secretary of the Treasury that the national debt does not exceed a precisely defined legal limit. At the end of 1985, that limit was \$2.08 trillion. The staff of the Fiscal Assistant Secretary monitors the national debt with the assistance of a computerized tracking system. They use this system to keep a running balance of the liability imposed on the government by the national debt. The national debt must be kept at or below the statutorily defined maximum set by Congress. If the general public invests heavily in marketable government securities on a given day, the Fiscal Assistant Secretary can control the national debt by delaying that day's investments and accelerating redemptions in non-marketable securities. Government Account Series data is used as an integral tool in monitoring and limiting the national debt because government investments, unlike investments made by the general public, provide the Fiscal Assistant Secretary with the flexibility needed to carry out this responsibility.

Although FMS' Finance and Funding Branch plans to automate its operations within four years, they are now primarily manual and labor intensive. The Branch maintains manual control and subsidiary ledgers for government accounts investing in both marketable and non-marketable securities. At the end of 1984, the Government Account Series balance was in excess of \$286 billion. (See appendix IV.) This represented about 17 percent of the national debt. At the end of 1984, the government account's balance in marketable securities was in excess of \$6 billion. The Bureau of the Public Debt is responsible for reporting to the public both marketable and non-marketable investments. On a monthly basis, BPD consolidates the financial data it receives from FMS on both marketable and non-marketable securities with that received from the Federal Reserve Banks on marketable securities in The Monthly Statement of the Public Debt. Based on information provided by FMS, BPD reports investment and redemption transaction requests on a daily basis to FMS' Funds Control Branch for inclusion in the Daily Treasury Statement, and to the Office of the Fiscal Assistant Secretary for use in monitoring the statutory debt ceiling.

FMS and BPD must continually coordinate their activities to ensure that their accounting records accurately reflect investment and redemption transactions in both marketable and non-marketable securities. FMS' and BPD's accounting records are in a sense duplicates, and because these records are posted

and maintained independently they must be constantly compared. Both FMS and BPD report investment and redemption transaction totals to the Office of the Fiscal Assistant Secretary on a daily basis. FMS reports to the Office of the Fiscal Assistant Secretary the exact amount of investment and redemption transaction requests received from managing trustees. These transactions represent tentative Government Account Series totals. The totals are tentative because investments and redemptions can be cancelled by the Fiscal Assistant Secretary. BPD reports final debt totals later in the day.

The Office of the Fiscal Assistant Secretary uses the tentative Government Account Series totals provided by FMS and the final debt totals provided by BPD to determine if the statutory debt ceiling will be exceeded and the course of action to be taken. If the statutory debt ceiling has the potential of being exceeded, the staff of the Fiscal Assistant Secretary directs FMS to delay investments or accelerate redemptions in non-marketable securities. The transactions are directed by telephone calls to both FMS and BPD. Decisions on which investment transactions take place are made on a case by case basis by the Fiscal Assistant Secretary with advice from the Office of the General Counsel.