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ID 783631 THE WHITE HOUSE

WASHINGTON

DF

DATE: 17 JUL 78

FOR ACTION:

INFO ONLY: STU EIZENSTAT JACK WATSON

JIM MCINTYRE

SUBJECT: BERGLAND MEMO RE CASH MANAGEMENT REVIEW

7/14 - Dept will call back
7/15 - Dept thinks that this need not go to President. The Treas is currently reviewing

(7/19) - Lee Carcanan suggested that this would be submitted to President

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

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ACTION REQUESTED:

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

July 13, 1978

MEMORANDUM TO: The President

SUBJECT: Cash Management Review

In response to your memorandum of November 14, 1977, the Department of Agriculture has conducted a review of its policies, practices and procedures that influence the Government's cash flow. I am pleased to report that programs implemented and decisions made within the Department since January 1977, will generate interest cost savings to the Government of $16.8 million during this fiscal year and are expected to generate annual savings of $30.3 million in later years. Further, and perhaps more important, the new loan disbursement system implemented by the Farmers Home Administration in January 1977, is saving interest costs of an estimated $28.2 million annually for low income borrowers, without cost to the Government.

The review of program agencies was conducted by a team of objective analysts, and they concluded that, for the most part, those agencies in the Department of Agriculture that have responsibility for managing large sums of Government money do so effectively. While certain opportunities for fine tuning were identified, there was no indication that a major overhaul is necessary or desirable to achieve our cash management objectives.

The most dramatic change within the Department occurred in January 1977, when the Farmers Home Administration converted its method of disbursement for loan and grant payments to its current procedures whereby County Supervisors issue Treasury checks as funds are required by recipients.

Prior to that time, funds that were to be used for progress payments were held in bank accounts until they were needed. Borrowers, mostly low income individuals, incurred interest costs while the funds remained in these idle accounts, and, because most Farmers Home Administration loans are made at lower than market interest rates, the Government also experienced significant carrying costs.

It is estimated that if this change had not been made, low income borrowers would now be paying interest of $28.2 million annually on dormant balances and the Government would be experiencing subsidy costs of $14.8 million annually.

A second activity of which you should be aware is the development by the Food and Nutrition Service -- in cooperation with the Treasury Department and the State of California -- of a system that relies on Electronic Fund Transfers to eliminate the need of grant recipients to hold excess Federal funds. Despite Treasury and USDA policy to the contrary, many grant recipients find it necessary to hold money balances above their immediate needs because of uncertainty as to the timing of receipt of additional funds. With the use of EFT, however, the timing of fund receipts is much more certain and timely, and grant draws may be scheduled on an actual need basis.

The results of the system in the State of California were dramatic -- achieving a 95% reduction in balance requirements. FNS estimates that when this new approach is extended to all of its grant recipients, the Government will experience an estimated $7.8 million in interest cost savings annually -- at current program levels.

This experience has broad application throughout the Government. The Department is taking steps to insure that the rest of the Federal community can benefit from our experience by working with representatives of the cash management staff within your reorganization project.

A number of other decisions have been made within the Department in recent months that have resulted in improvements in government cash flow. Further, there are several activities in various stages of implementation, from initial study to nearly operational, that will result in additional benefit. While the impact of these activities are less dramatic than those described above, in aggregate they are significant.

Assuming that all Departmental commitments reach fruition, the following is a summary of expected results.

	Expected Savings FY-1978 (In Millions)	Projected Annual Savings Future Years (In Millions)
1. Farmers Home Administration Disbursement System	$14.8	$14.8
2. Food and Nutrition Service Grant Management	0.2	7.8

	Expected Savings FY-1978 (In Millions)	Projected Annual Savings Future Years (In Millions)
3. Other Improvements in Billing, Collection and Deposit	$ 1.6	$ 7.1
4. Other Improvements in Grant Management	0.2	0.2
5. Other Improvements in Disbursement Control	-0-	0.4
TOTALS	$16.8	$30.3

BOB BERGLAND
Secretary