



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

090234

GENERAL GOVERNMENT
DIVISION

18 MAY 1978

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The Honorable Paul H Taylor
Acting Fiscal Assistant Secretary
Department of the Treasury

Dear Mr Taylor

As you know, the Department of Treasury, pursuant to Presidential executive orders, seeks to increase--within the constraints of good cash management--Federal funds deposited with minority banks. Because of Treasury's role, we are enclosing a copy of our report on how the Saint Lawrence Seaway Development Corporation's participation in the minority bank program was not accompanied by sound cash management practices. This is but one case and the amount of money involved is small, but the events raise a question on whether some guidance to Federal agencies on program participation might be in order.

The Corporation acquired certificates of deposits from minority banks at interest rates lower than those given the general public. In acquiring the certificates, the Corporation was not (1) requesting the prevailing interest rates, (2) getting bids from all banks participating in the minority bank program, and (3) attempting to acquire longer term certificates of deposit at higher interest rates when feasible. Our recommendations to the Corporation are detailed in the enclosed report, Corporation officials said that better interest rates would be obtained in the future.

Treasury officials are aware that conflicts exist between promoting the use of minority banks and sound cash management practices. Steps are being taken to clarify practices for depositing in minority banks Federal funds flowing through Treasury's general accounts and tax and loan accounts. But no action has been taken or is being contemplated to clarify conflicts involving the use of investment funds such as that made by the Saint Lawrence Seaway Development Corporation. Treasury's banking staff estimated that about \$40 million of Federal-controlled investment deposits were with minority banks at September 30, 1977.

There has been no guidance on the use of investment funds apparently because Treasury has no authority to direct agencies to invest funds in minority banks or to accept any particular interest rate, and Treasury is seeking to have its responsibility for the

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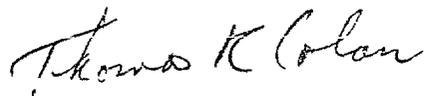
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minority bank program transferred to the Interagency Council for
Minority Business Enterprise

Fundamentally, of course, sound cash management practices rest with the agencies. However, given the potential for conflict between that practice and the investment of funds with minority banks, we believe some guidance from Treasury to Federal agencies on the trade-offs, if any, that should be made between the competing objectives might be in order. If Treasury's responsibility is transferred, we believe the recipient entity would welcome the guidance.

We would appreciate being advised of any action taken on the matter.

Sincerely yours,



Thomas R. Colan
Assistant Director

Enclosure