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REPORT TO
THE CONGRESS OF THE UNITED STATES

INADEQUATE ADMINISTRATIVE CONTROLS
OVER FEDERAL FUNDS USED FOR
FINANCING FEDERAL-STATE PROGRAMS

DEPARTMENT OF LABOR



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

APRIL 1965

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

APR 8 1965

B-133182

To the President of the Senate and the
Speaker of the House of Representatives

Our review of the administrative practices of the Department of Labor in funding various Federal-State programs for the training of the unemployed and underemployed disclosed that controls exercised by the Department were ineffective and that, as a result, \$1.1 million of Federal funds advanced in fiscal years 1962 and 1963 to State employment security agencies were permitted to accumulate in the hands of such agencies although the funds were no longer available for use in the training programs. We estimate that, because of the delay in recovering the surplus training funds, the Government incurred unnecessary interest costs of as much as \$58,000. We found also that \$2.1 million of funds recovered from the State agencies were not promptly deposited after receipt by the Department's Washington office.

We are bringing this matter to the attention of the Congress because it is illustrative of savings available to the Government under new procedures prescribed in May 1964 by the Treasury Department for the use of letters of credit to provide funds as needed for grant and certain other programs financed by the Federal Government.

We proposed that, in order to avoid the accumulation of surpluses and to help prevent unnecessary interest charges to the Federal Government, the Secretary of Labor (1) issue instructions requiring the continuous monitoring of funds advanced and the prompt return of all funds not currently needed or no longer available for use by the State agencies for project expenses and (2) consider the use of letters of credit for funding the operations of the State agencies through Federal Reserve banks, which procedure would permit State agencies to draw funds as needed for program operations and avoid premature withdrawals from the United States Treasury. We also proposed that the Secretary of Labor issue instructions requiring adequate control and prompt depositing of cash receipts.

We have been informed by the Assistant Secretary for Administration that the Department has taken action to recover the surplus funds from the States, that it will apply the letter-of-credit procedure to payments to States for all major programs, and that it will prepare comprehensive written procedures for the handling of cash receipts.

The actions which the Department has taken and proposes to take appear to be adequate to correct certain deficiencies noted in our review, and we plan to evaluate the adequacy of the Department's corrective actions when they have been completed. However, since the Department later informed us that it was deferring application of the letter-of-credit procedure to the area redevelopment program because legislative authority for this program expires on June 30, 1965, we are recommending that the Secretary of Labor offset surplus funds now in the hands of the States against any advances for training activities which may be made prior to the expiration of the area redevelopment program and recover on a timely basis any surplus funds which cannot be offset.

Copies of this report are being sent to the President of the United States and the Secretary of Labor.

A handwritten signature in cursive script, appearing to read "George Campbell".

Comptroller General
of the United States

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REPORT ON
INADEQUATE ADMINISTRATIVE CONTROLS
OVER FEDERAL FUNDS USED FOR
FINANCING FEDERAL-STATE PROGRAMS
DEPARTMENT OF LABOR

INTRODUCTION

The General Accounting Office has made a review of the practices of the Department of Labor relating to the control of Federal funds used for various Federal-State programs, including the operation of State employment security offices and training activities under the Area Redevelopment Act (42 U.S.C. 2513, 2514) and the Manpower Development and Training Act of 1962, as amended (42 U.S.C. 2571). Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of our review is stated on page 16.

The Secretary of Labor is responsible for administering, in cooperation with the Secretary of Health, Education, and Welfare, a program of occupational training to develop and improve the work skills of the unemployed and underemployed¹ in redevelopment areas and for providing for payment of allowances to individuals in training. For fiscal years 1962, 1963, and 1964, the Department of Labor received appropriations of \$14 million, \$11 million, and \$8.5 million, respectively, for this program. Training operations commenced in November 1961; and, as of June 30, 1964, 738 projects

¹Employed individuals whose capabilities for full-time employment or demonstrated skills are not being substantially utilized.

providing institutional training for 33,433 individuals had been approved at an estimated cost of about \$19 million.

Area Redevelopment Program activities in the Department of Labor are under the overall direction of the Office of Manpower, Automation, and Training. Program operations are the responsibility of the Bureau of Employment Security and its affiliated State employment security agencies. Direction and coordination of all matters of administration and management in the Department of Labor are the responsibility of the Assistant Secretary for Administration.

The Bureau of Employment Security is also responsible for the administration of Federal-State programs for the operation of employment security offices. The Bureau advances funds to the State employment security agencies for the administrative costs of the offices and for the project and other costs of certain training programs which they administer.

The principal Department of Labor officials having responsibility for the administration of the activities discussed in this report are listed in appendix I.

Although there were weaknesses in the Department's funding of certain Federal-State programs, as disclosed by our review, we found the management receptive to our findings and willing to devise and carry out necessary corrective actions.

FINDINGS AND RECOMMENDATION

Our review of the administrative practices of the Department of Labor in funding various Federal-State programs for the training of the unemployed and the underemployed disclosed that controls exercised by the Department were ineffective and that, as a result, \$1.1 million of Federal funds advanced in fiscal years 1962 and 1963 to State employment security agencies were permitted to accumulate in the hands of such agencies although the funds were no longer available for use in the training programs. We estimate that, because of the delay in recovering the surplus training funds, the Government incurred unnecessary interest costs of as much as \$58,000. This deficiency is similar to deficiencies which have occurred in other Government agencies with similar financing programs. Improvements and savings should result from the implementation of the Treasury Department's letter-of-credit procedure for funding federally financed and assisted programs.

We found also that \$2.1 million of funds unobligated at June 30, 1964, and recovered from the State agencies were not promptly deposited after receipt by the Department's Washington office. Details of our findings, the actions which the Department has taken and proposes to take, and our recommendation follow.

UNWARRANTED ACCUMULATION OF FEDERAL TRAINING FUNDS WITH STATE EMPLOYMENT SECURITY AGENCIES UNNECESSARILY INCREASED FEDERAL INTEREST COSTS

About \$1.1 million of the \$8.8 million advanced to State employment security agencies in fiscal years 1962 and 1963 by the Department of Labor for the occupational training and retraining of unemployed and underemployed persons in redevelopment areas was permitted to accumulate with the State agencies, even though the

funds were no longer available for use. These surplus funds accumulated over the 2-year period because the Department did not adequately regulate the States' cash balances and delayed until April 1964 a request that the surplus money be returned. The Department, by permitting the surplus balances to accumulate with the State agencies, denied the United States Treasury the use of such funds. This resulted in unnecessary interest costs, which we estimate to be as much as \$58,000, being incurred by the Federal Government.

The Secretary of Labor is authorized under section 17a of the Area Redevelopment Act to enter into agreements with States in which redevelopment areas are located, under which the Secretary of Labor shall make payments to such States either in advance or by way of reimbursement for the purpose of enabling such States, as agents of the United States, to make weekly allowance payments to unemployed or underemployed individuals residing within such redevelopment areas who are certified by the Secretary of Labor to be undergoing occupational training or retraining under section 16 of the act.

To carry out this provision of the act, the Department of Labor advances funds to the State employment security agencies for the trainee allowances and also for administrative costs directly related to training projects on the basis of training proposals submitted by the State agencies and approved by the Secretary of Labor. In fiscal years 1962 and 1963, funds of about \$3.6 million and \$5.2 million, respectively, were advanced to the States for estimated trainee allowances and administrative costs of projects approved during this period.

State agencies are required to submit reports to the Department of Labor on the status of the allowance and administrative

funds received. Monthly reports of trainee allowances show the unexpended balances, by training projects, and the amount of unexpended funds of the completed projects that should be returned to the Department of Labor. Administrative funds are accounted for by quarterly and annual reports, but only the annual reports indicate the amount of surplus administrative funds on hand at the end of the fiscal year that should be returned to the Department.

The State agency reports submitted to the Department for fiscal years 1962 and 1963 show that about \$1.1 million of surplus funds had accumulated in the State agencies during this period. The principal amounts are listed by States in appendix II. The training funds were advanced to the States on the basis of program plans, and the surplus funds resulted mainly because the Department did not promptly recover funds as program needs were reduced as a result of unanticipated training project cancellations, trainee dropouts, and projects starting with less than the approved number of trainees. The funds were advanced from 1-year appropriations for fiscal years 1962 and 1963.

Some training funds became surplus when excess funds from projects completed during the fiscal year for which the funds were appropriated were not obligated for other projects subsequently approved in the same fiscal year. Additional surplus training funds resulted when projects were completed after the expiration of the fiscal year for which the funds were appropriated. Because of the time limitation on the use of annual appropriations, these unobligated advances may not be used after the period of availability for obligation has expired, and they are required to be returned to the Treasury.

Fiscal procedures issued by the Department in October 1961 provide that all money received by a State agency under the Area

Redevelopment Act shall be used solely for the purposes for which it is advanced, and any money not used for such purposes shall be returned to the Secretary of Labor at the time and in the manner specified in any agreement under the act, or as otherwise directed in fiscal instructions. By fiscal instructions issued in June 1962 and October 1963, the State agencies were advised to report unused funds to the Department. In these same instructions, however, the State agencies were told that special instructions would be issued concerning the disposition of surplus funds and that such funds should not be returned except upon notification. We found that specific instructions to return the surplus funds were not issued until April 1964, thus allowing the surplus funds to accumulate in the States over a period of about 2 years.

Advances for training allowances can be identified as surplus when planned projects are canceled, discontinued, or completed on a curtailed basis. Advances for administrative expenses are identified as surplus when these advances are not used by the end of the fiscal year. The following schedule shows the amounts of surplus funds reported by the States up to June 30, 1963.

	<u>Total funds</u>	<u>Allowance funds</u>	<u>Adminis- trative funds</u>
Reported surpluses at June 30, 1962	\$ 677,000	\$ 482,000	\$195,000
Additional surpluses of 1962 funds reported during fiscal year 1963 (note a)	<u>647,000</u>	<u>647,000</u>	<u>-</u>
	1,324,000	1,129,000	195,000
Less reallocations of 1962 funds for financing 1963 projects (note b)	<u>872,000</u>	<u>872,000</u>	<u>-</u>
Reported surpluses of 1962 funds at June 30, 1963	452,000	257,000	195,000
Reported surpluses of 1963 funds at June 30, 1963	<u>651,000</u>	<u>324,000</u>	<u>327,000</u>
Total reported surpluses at June 30, 1963 (note c)	<u>\$1,103,000</u>	<u>\$ 581,000</u>	<u>\$522,000</u>

^aThese surplus amounts were reported by the States as projects approved and funded from the 1962 appropriation were completed and closed out in fiscal year 1963.

^bIn October 1963, the Department, recognizing that the 1962 appropriation was not available for the funding of 1963 projects, corrected the effect of the reallocation actions by reducing the charges to the 1962 appropriation by \$872,000 and increasing the charges to the 1963 appropriation by the same amount without reducing the total of funds or surpluses in the hands of the States. This action was a technical recovery of 1962 appropriated funds.

^cAppendix II shows the principal amounts by States at June 30, 1963.

While our review was in progress, the Department notified the State agencies on April 24, 1964, to return surplus funds on hand as of June 30, 1963; and, as of June 30, 1964, about \$1 million had been returned by the States. We estimate that, because of the delay in recovering the surplus funds, the Government incurred unnecessary interest costs of as much as \$58,000.

Our interest computation took into account month-end and year-end balances of surplus funds with State agencies during the period of approximately 2 years ended April 30, 1964, and the average monthly interest rate paid by the Treasury on marketable securities during this period.

The determination that unnecessary interest costs were incurred is based on the fact that the Government's expenditures are made from a single pool of funds in the Treasury. All Government checks are drawn against this pool, and all funds received by the Government from whatever source are deposited in the pool and commingled with all other money therein. When receipts are insufficient to meet demands, the difference is obtained through borrowings; when receipts are in excess of demands, previous borrowings can be repaid. Thus funds intended for any purpose, if not so used, should be returned so that they could be used to repay debt or to reduce borrowings, thereby saving interest costs.

The accumulation of surplus Federal funds in the hands of States under programs administered by the Department of Labor is much the same as deficiencies which have occurred in Federal programs financed by grants or other-type payments administered by other Government agencies.

In reports to the Congress on various programs administered by the Department of Health, Education, and Welfare (HEW), we

commented that the paying of grant funds in excess of the grantee's current requirements is undesirable since it tends to unnecessarily accelerate Government borrowings and may increase related interest costs. Our reports pointed out the premature advance and excessive accumulation of Federal grant funds in States under the following HEW programs.

<u>Program and report number</u>	<u>Report issue date</u>
Title III of National Defense Education Act of 1958 (B-114836)	Jan. 9, 1964
Health research facilities construction program (B-114836)	Dec. 18, 1962
Surveillance and control of communicable diseases (B-146739)	July 23, 1962
Maternal and child welfare grants (B-114836)	Nov. 21, 1960
Research, training, and fellowship grants-in-aid (B-114836)	Nov. 12, 1959

Use of letters of credit for Federal financing of approved programs

In order to reduce the need for Government borrowings and the related interest costs, the Treasury Department has initiated a letter-of-credit procedure to provide for payments of grants and contributions in a manner which precludes the premature withdrawal of funds from the United States Treasury for financing approved program operations. This procedure is applicable to most programs requiring advance financing by the Federal Government, but it is not applicable to programs of short duration or programs requiring small amounts for financing, because administrative operating costs may exceed the savings to be realized. However, many programs, such as those operated by the Departments of Labor and HEW, are of

large scope and warrant use of the letter-of-credit procedure. The unnecessary interest cost of as much as \$58,000 cited in this report is indicative of amounts which can be saved through the use of letters of credit.

The Treasury Department policy as stated in Treasury Department Circular No. 1075, dated May 28, 1964 (appendix III), provides that advances of money to grantees and other recipients prior to actual need should be limited to the minimum amounts possible and that, in general, advances should be timed to be in accord with the actual cash requirements of the recipients in carrying out the purposes of the approved programs or projects. In order to better achieve this objective, Circular No. 1075 authorizes a letter-of-credit procedure which will provide the recipients with means of obtaining funds from the Treasury promptly from time to time, but not in excess of amounts currently needed to finance operations under approved Federal programs.

The letter-of-credit procedure authorizes the recipient of Federal grants to select a commercial bank to handle its account. The Federal agency then prepares the letter of credit in the name of the grantee and sends the letter of credit to the Treasury Department for forwarding to the appropriate Federal Reserve bank or branch. As funds are needed, the recipient prepares payment vouchers against the letter of credit and sends them to the Federal Reserve bank or branch through his commercial bank. The Federal Reserve bank credits the commercial bank reserve account and notifies the commercial bank of acceptance of the payment vouchers. The commercial bank credits the recipient's account with the amount of the payment vouchers. Thus the State agencies involved will be able to draw the amounts of cash as needed for program operations

without withdrawal of funds from the United States Treasury any sooner than needed to finance approved Federal program operations.

Conclusion and agency action

Surplus funds accumulated with the State agencies because the Department of Labor did not adequately regulate the funding activity. The Department advanced project funds to the State agencies soon after project approval. Although applicable procedures of the Department required that the State agencies report fund balances regularly, there were no instructions or procedures requiring the periodic remittance of surplus funds to the Department for return to the Federal treasury. Accordingly, we proposed to the Department on October 23, 1964, that, in order to avoid the accumulation of surpluses and to help prevent unnecessary interest charges to the Federal Government, the Secretary of Labor (1) issue instructions requiring the continuous monitoring of funds advanced and the prompt return of all funds not currently needed or no longer available for use by the State agencies for project expenses and (2) consider the use of letters of credit as authorized by Treasury Department Circular No. 1075.

The Assistant Secretary for Administration advised us by letter dated November 27, 1964, that the Department had taken action to recover the surplus funds on hand with the State agencies at June 30, 1963, and also at June 30, 1964, and that, on October 2, 1964, the Department wrote to the Treasury Department, stating its intentions of applying the letter-of-credit procedure to payments to States for all major programs of the Department (including the area redevelopment program) by January 1965.

On February 18, 1965, a Department official informed us that the letter-of-credit procedure was being used for grants for the administration of unemployment compensation and employment service

activities and for Federal payments to the States for unemployment compensation paid to Federal employees and ex-servicemen. He also informed us that the letter-of-credit procedure was planned for use in financing manpower development and training programs effective with payments to be made in April 1965 and for financing neighborhood youth corps activities at a date not yet established. He advised us that the Department was deferring application of the letter-of-credit procedure to the area redevelopment program because legislative authority for this program expires June 30, 1965, and that legislation would be proposed to place training activities in redevelopment areas under the manpower development and training program.

Recommendation

We recommend that, to help avoid recurrence of the past accumulation of surplus funds for area redevelopment activities with the State agencies, the Secretary of Labor offset surplus funds now in the hands of the States against any advances for training activities which may be made prior to the expiration of the area redevelopment program at June 30, 1965, and recover on a timely basis any surplus funds which cannot be offset.

FUNDS RECOVERED FROM STATE AGENCIES
NOT PROMPTLY DEPOSITED BY
DEPARTMENT'S WASHINGTON HEADQUARTERS

Our review of the handling of cash received by the Bureau of Employment Security from the State employment security offices as a result of the Bureau's request in August 1964 for the return of certain funds unobligated as of June 30, 1964, disclosed that the Bureau did not adequately control cash receipts of about \$2.1 million and did not promptly deposit the funds as required by law and by the regulations of the General Accounting Office.

The 1964 appropriation act (Public Law 136, 88th Congress) provided that any portion of the grants made available to the States for administration of the State unemployment compensation law and the public employment offices during fiscal year 1964 which was not obligated by the State in that year should be returned to the United States Treasury. The appropriations for the training activities, which are made annually, in some cases are available for obligation over a 2-year period.

Legal requirements provide that Government agencies deposit receipts at as early a day as practicable (31 U.S.C. 484) and in all cases within 30 days of their receipt (31 U.S.C. 495). The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 5540.30) provides that, for a satisfactory system of internal control over cash receipts, a practice must be employed which provides for the safeguard of receipts and their deposit intact on a daily basis insofar as practicable.

Receipts should be recorded promptly at the point of receipt, usually the incoming mail room, and should be listed before they are released to the cashier. The cashier, in turn, should be responsible for depositing all funds daily, and an independent third

party should verify a copy of the daily listing as well as a copy of the deposit slip so that assurance can be had that all funds received have been promptly deposited.

We noted unreasonable delays in depositing the receipts. Our review disclosed that the Bureau's Branch of State Budgets (Branch) received 133 checks totaling \$2,113,000 during the period from the end of August through November 2, 1964. The following table shows the length of time checks were on hand to November 6, 1964.

Period on hand before deposit or Nov. 6, 1964	Total	Deposited		Undeposited
		Oct. 2, 1964	Nov. 6, 1964	Nov. 6, 1964
61 to 70 days	\$ 758,616	\$ -	\$ 433,825	\$324,791
51 to 60 days	307,820	-	156,702	151,118
41 to 50 days	62,852	-	42,847	20,005
31 to 40 days	399,894	86,171	249,210	64,513
30 days and less	<u>525,506</u>	<u>198,207</u>	<u>299,933</u>	<u>27,366</u>
	<u>\$2,054,688</u>	<u>\$284,378</u>	<u>\$1,182,517</u>	<u>\$587,793</u>

The table does not include one check for \$58,000 received on September 14 and returned to the sending State on October 21 for correction of the amount.

We found that there was no Department, Bureau, or Branch instruction for the handling of cash receipts and that neither the Bureau mail room nor the Branch had promptly exercised effective control over the funds upon receipt.

We found also that neither the Branch nor the Bureau's accounts sections had exercised adequate security controls over the checks received. For the most part, checks received were transferred to Branch employees who kept the checks in unlocked desks from the time of receipt to the time the checks were forwarded to the accounts section for scheduling and deposit. After receipt by

the accounts section, the checks were kept for periods of up to 7 days in an easily portable locked box located on top of one of the desks.

No record was maintained of the checks in the custody of the various employees even though the checks were on hand for periods of up to about 70 days. The employee in charge of the Branch budget analysis section informed us that the checks were retained until the Branch had verified the correctness of the amounts received. The unnecessary transfer of checks within the Branch increased the risk of loss of the checks, particularly because adequate controls were not maintained. Also, the delay in recording the cash receipts resulted in inaccurate financial reporting.

In our opinion, the Bureau had no justifiable need to delay the depositing of the funds. The postponement of making the deposits denied the Treasury the use of the money for the periods involved. If the amounts could not be readily associated with the accounts to which the deposit should have been credited, the money should have been deposited in the Department's deposit fund suspense account until such time as applicable accounts were identified. Since the 1964 appropriation act required the State agencies to return the grant funds unobligated as of June 30, 1964, the Bureau should have emphasized that the State agencies must set forth appropriate identifying information on the remittance advices.

The Bureau's letter of August 20, 1964, also requested the State agencies to refund the unobligated amounts to the Bureau within 10 days. We observed that no control record was maintained of responses by the State agencies to the requirements of the letter. Most of the State agencies did not respond within the 10-day period specified. At November 2, 1964, the Branch had not received

a response from seven State agencies, although responses were about 2 months overdue.

Conclusion and agency action

We believe that the improper handling of cash receipts and the unnecessary delays in depositing the funds resulted from the lack of written instructions for the handling of cash receipts and the absence of necessary internal controls. Therefore, we proposed that the Secretary of Labor issue instructions requiring adequate control and the prompt depositing of cash receipts, using the deposit fund suspense account when necessary.

The Assistant Secretary for Administration advised us by letter dated December 10, 1964, that he was of the opinion that inaccurate financial reporting was due primarily to discrepancies in State accounting reports and that the many sources of funds supporting State employment security administration contributed to the slow and inaccurate reporting by the States. However, he advised us that the Department had taken steps to provide for the safeguarding and prompt deposit of cash receipts and that comprehensive written procedures were being prepared for handling the cash receipts. He advised us also that, as of December 4, 1964, all but three States had responded to the letter requesting the return of unobligated funds and that a check was on its way from one of the three States.

Because the actions which the Department is taking and has taken appear to be adequate to correct the deficiencies noted in our review, we are making no recommendations at this time. However, we plan to evaluate the adequacy of the Department's corrective actions when they have been completed.

SCOPE OF REVIEW

Our review was made in Washington, D.C., and included (1) a review of the Area Redevelopment Act, (2) a review of the procedures and practices of the Department of Labor for advancing funds to the State employment security agencies, (3) a review of selected financial reports prepared by the State agencies on operations in fiscal years 1962 and 1963, and (4) a review of the procedures followed by the Department of Labor in the handling of cash receipts.

APPENDIXES

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF LABOR
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF LABOR:		
Arthur J. Goldberg	Jan. 1961	Sept. 1962
W. Willard Wirtz	Sept. 1962	Present
UNDER SECRETARY OF LABOR:		
W. Willard Wirtz	Jan. 1961	Sept. 1962
John F. Henning	Sept. 1962	Present
ASSISTANT SECRETARY FOR ADMINISTRATION:		
James E. Dodson	July 1952	Jan. 1962
Leo R. Werts	Jan. 1962	Present
MANPOWER ADMINISTRATOR (note a):		
John F. Henning	Feb. 1963	Apr. 1964
John C. Donovan	Apr. 1964	Jan. 1965
Stanley H. Ruttenberg	Jan. 1965	Present
ASSISTANT SECRETARY FOR EMPLOYMENT AND MANPOWER (note a):		
Jerry R. Holleman	Jan. 1961	May 1962
DIRECTOR, OFFICE OF MANPOWER, AUTOMATION AND TRAINING:		
Seymour L. Wolfbein	June 1962	Present
ADMINISTRATOR, BUREAU OF EMPLOYMENT SECURITY:		
Robert C. Goodwin	Aug. 1949	Present

^aSecretary's Order No. 3-63, dated February 19, 1963, established the Manpower Administration and transferred functions of the Assistant Secretary for Employment and Manpower to the Manpower Administrator. The position of Assistant Secretary for Employment and Manpower was vacated in May 1962 and was abolished.

SURPLUS FUND BALANCES
 OF FISCAL YEAR 1962 AND 1963 TRAINING FUNDS
 HELD BY STATE EMPLOYMENT SECURITY AGENCIES
 AT JUNE 30, 1963

<u>State</u>	Administrative <u>funds</u>	Allowance funds (<u>note</u>)	<u>Total</u>
Arkansas	\$ 19,633	\$ 12,223	\$ 31,856
Connecticut	33,013	106,761	139,774
Maryland	3,502	37,452	40,954
Michigan	20,500	5,060	25,560
Minnesota	21,392	2,625	24,017
Montana	11,023	11,701	22,724
New Mexico	7,485	30,720	38,205
Pennsylvania	75,222	91,564	166,786
Puerto Rico	16,578	26,344	42,922
Rhode Island	14,142	43,673	57,815
West Virginia	44,353	130,711	175,064
37 other States	<u>255,427</u>	<u>81,897</u>	<u>337,324</u>
Total	<u>\$522,270</u>	<u>\$580,731</u>	<u>\$1,103,001</u>

Note: In addition to the amounts shown in this schedule, which pertain to the 1962 and 1963 appropriations only, the States continued to report surpluses after June 30, 1963, arising from completed and closed out projects funded from the 1963 and 1964 appropriations.

REGULATIONS RELATING TO TIMING OF PAYMENTS
FOR FEDERAL GRANTS, CONTRIBUTIONS
AND OTHER PROGRAMS

1964
Department Circular No. 1075

Treasury Department
Office of the Secretary
Washington, D. C.

Fiscal Service
Bureau of Accounts

May 28, 1964

TO HEADS OF DEPARTMENTS AND AGENCIES AND OTHERS CONCERNED:

1. Objective

Federal programs financed by grants and other types of payments to State and local governments and to educational and other institutions constitute a significant portion of the Federal Budget. The timing of payments to these recipients has a substantial impact on the Treasury, including the level of the public debt and financing costs. It is therefore essential that everything possible be done to preclude withdrawals from the Treasury any sooner than necessary to finance the related operations of the grantees and other recipients.

2. Scope

These regulations cover disbursement practices for advance financing of Federal programs carried out by (1) State and local governments, and (2) educational and other institutions, including international organizations of which the United States is a member. Programs involving both general and trust funds are included. Coverage is intended to be so broad as to apply to any such program requiring Federal payments to finance the recipient's activities in carrying out that program. Programs for which disbursements are made, or will be made, as reimbursements for work performed are not covered by these Regulations.

3. General Policy

Advances of money to grantees and other recipients prior to performance should be limited to the minimum amounts possible. In general, advances should be timed to be in accord with the actual cash requirements of the recipient in carrying out the purpose of the approved program or project.

GENERAL REQUIREMENTS

4. Treasury-Agency Coordination

a. All agencies covered by these Regulations are requested to establish the necessary framework for achieving the objective, including the issuance of internal regulations which, as a minimum, should:

- (1) Assign responsibility to a designated official to assure agency-wide implementation and to provide a focal point for liaison with the Treasury's Fiscal Service.
- (2) Specify the programs and cite the statutory references wherever there is a legal impediment to the timing of payments in accord with the recipient's actual need for cash.
- (3) Specify the programs for which disbursements are to be made in accordance with actual cash needs of the recipient pursuant to these Regulations, and describe in appropriate detail the procedures to be used in a format similar to Attachment A of these Regulations.
- (4) Establish the earliest possible effective date in fiscal year 1965.

b. A high degree of uniformity in the new payment practices is desirable, Government-wide, both from the standpoint of maximum accomplishment of the objective and the Treasury-agency operating relationships involved, including the Treasury responsibilities to be exercised through the Federal Reserve Banks. Hence, agency internal regulations should be submitted to the Fiscal Assistant Secretary of the Treasury for concurrence before formal issuance. The Bureau of Accounts, Systems Division (184-2277) should be consulted for any assistance needed in the development of agency systems, including any arrangements to be made with the Federal Reserve Banks.

PROCEDURAL REQUIREMENTS

5. Letter of Credit Method of Financing

The Letter of Credit procedure described in Attachment A will achieve the objective set out above by providing the recipient with means of obtaining funds from the Treasury promptly from time to time, but not in excess of amounts currently needed to finance its operations under an approved Federal program. This procedure, with whatever adaptation of details may be necessary in particular programs, will therefore be required unless a specific exception is made by the Treasury Department. On the basis of a specific proposal from an agency, the Department will make an exception where (a) the proposal will be equally advantageous in precluding a "cash supply" in the hands of the recipient prior to the

actual need of cash for program purposes, and (b) there are adequate reasons for a different procedure.

6. Special Problems

Where existing legislation may specify the timing of payments in a manner which would preclude achievement of the objective, special attention is necessary. In such cases, upon the agency's recommendation in connection with the information relating to paragraph 4a(2) above, the Treasury Department and the Bureau of the Budget will collaborate in an effort to remove the legal impediment.

7. Reporting

In order to have a systematic means for following up on Government-wide progress, a report should be submitted to this office not later than September 30, 1964, showing progress and status of the program, including the actual or expected date of implementation of the new payment-timing practices for each program. For this purpose, the report should be arranged by Bureau or other organizational units, with specific information on the respective fund accounts listed in the order of regular budget submissions, as was done in connection with the agency responses to Bureau of the Budget Bulletin No. 64-6, dated November 12, 1963.

8. Effective Date

These regulations are effective immediately.


Fiscal Assistant Secretary

Attachment

