

Annual Report: Budget Review



Board of Governors of the Federal Reserve System

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Introduction

This report describes the budgeted expenses of the Federal Reserve System for 1992 and compares them with expenses for 1990 and 1991. For 1992, the Federal Reserve System has budgeted net operating expenses of \$776.2 million. During this year, the System expects to realize \$786.1 million, or 45.6 percent of its total operating expenses, from its priced services. Total operating expenses are budgeted at \$1,725.2 million, an increase of 6.9 percent over 1991 estimated expenses.

The Federal Reserve System consists of the Board of Governors in Washington, D.C., the twelve Federal Reserve Banks with their twenty-five Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council.

The System was created by the Federal Reserve Act, passed by the Congress in 1913 to establish a safer and more flexible monetary and banking system. After the inception of the Federal Reserve System, it became clear that these original purposes were part of broader national economic and financial objectives. Stability and growth of the economy, stability in the purchasing power of the dollar, and reasonable balance in transactions with foreign countries have come to be recognized as primary objectives of governmental economic policy. Over the years, such objectives have been articulated by the Congress in legislation giving the Federal Reserve more authority and responsibility.

As the nation's central bank, the Federal Reserve, through its conduct of monetary policy, attempts to ensure growth of the economy consistent with price stability. As the nation's lender of last resort, the Federal Reserve also has the responsibility to forestall national liquidity crises.

Because a sound financial structure is essential to an effective monetary policy and a growing and prosperous economy, the Congress has entrusted the Federal Reserve with a variety of bank supervisory and regulatory functions. Among other things, the Federal Reserve administers the laws that regulate all bank holding companies; it supervises state-chartered banks that are members of the Federal Reserve System; it regulates the foreign activities of U.S. banks and the U.S. activities of foreign banks; and it establishes rules to ensure that consumers are informed adequately and treated fairly in credit transactions.

The Federal Reserve System also plays a major role in the nation's payments mechanism. Federal Reserve Banks distribute currency and coin, provide both wire and automated clearinghouse transfers of funds and securities, and process 32 percent of all domestic checks. The Federal Reserve serves as the fiscal agent for the U.S. Treasury and provides a variety of other financial services for the Treasury and other government agencies.

To carry out these responsibilities in 1991, the Federal Reserve System spent an estimated \$1.6 billion and earned an estimated \$928 million in revenue from priced services, reimbursements,

and other income, for a 1991 total of \$687 million in net operating expenses. The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities in the System Open Market Account, estimated at \$21.3 billion in 1991. The System uses purchases and sales from this portfolio to implement monetary policy. Gains on foreign exchange transactions approximated \$2.5 billion.

Each year the Federal Reserve returns to the U.S. Treasury its earnings in excess of expenses, dividends, and surplus—in 1991, an estimated \$20.8 billion. These earnings are treated as receipts in the U.S. budget accounting system; projections of these earnings by the Office of Management and Budget appear in the U.S. budget. ■

Part I

The 1992 Budgets

Chapter 1

Federal Reserve System

For 1992, the Federal Reserve System has budgeted net operating expenses of \$776.2 million. It expects to realize \$786.1 million, or 45.6 percent of total budgeted operating expenses, from revenues from priced services. Total operating expenses are budgeted at \$1,725.2 million, an increase of 6.9 percent over 1991 estimated expenses. The budgeted operating expenses of the System comprise those of the Reserve Banks, \$1,596.4 million, and the Board of Governors, \$128.8 million (tables 1.1 and 1.2).

Not included in these costs are Reserve Bank special projects, budgeted at \$20.1 million for 1992, up from \$6.8 million estimated for 1991.¹ Also excluded is the budgeted cost of currency at \$325.8 million for 1992, an increase of 25.2 percent over the estimated 1991 cost of \$260.2 million.² When special projects and the cost of currency are added to operating expenses, the Reserve Banks account for 77.1 percent of the total; the Board, 6.2 percent; special projects, 1.0 percent; and currency, 15.7 percent (chart 1.1). This distribution of expenses is similar to that in 1991.

1. As research and development efforts, special projects are separate from the continuing operations of the System and, therefore, are not included in System operating expenses. These relatively costly, short-term projects are expected to benefit both the System and the banking industry as a whole. A description of the special projects for 1992 appears in appendix C.

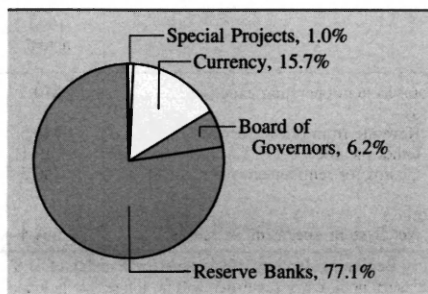
2. The Federal Reserve bears the cost associated with the printing of new currency at the Bureau of Engraving and Printing. Because this cost is determined largely by public demand for new currency, it is not included in Federal Reserve operating expenses. See appendix C.

Net Expenses

The System expects to recover 55.0 percent of the expenses it incurs during 1992. The following items are deducted from System operating expenses to derive net expenses: (1) revenue from priced payments mechanism services provided to depository institutions, (2) other income from services on behalf of the U.S. Treasury that are paid for by depository institutions using the services, and (3) claims for reimbursement by the U.S. Treasury and other government agencies for fiscal agency services. After deducting these items, the net expenses of the System of \$776.2 million show an increase of 13.0 percent over net System operating expenses estimated for 1991.

As required by the Monetary Control Act, receipts for priced services represent fees that are set to recover the full cost of providing these services to depository institutions, including the imputed costs of float and the return on capital that would have been provided and the taxes

Chart 1.1
Distribution of Expenses of the
Federal Reserve System, 1992¹



1. See text notes 1 and 2.

that would have been paid had a commercial entity in the private sector furnished the services. The revenue from priced services is detailed in table 1.3; the constraint imposed on Federal Reserve budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix C. All sources and uses of funds are presented in appendix

D; the audits of the System are listed in appendix E.

The category "Other income" in table 1.2 includes fees from such services as the transfer of U.S. Treasury book-entry securities in the secondary market, the settlement of such transfers among depository institutions, and wire transfer of funds between a depository institution

Table 1.1

Operating Expenses, Special Projects, and Cost of Currency
of the Federal Reserve System, 1990-92¹

Millions of dollars, except as noted

Entity and type of expense	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Reserve Banks ²	1,406.6	1,501.5	1,596.4	6.7	6.3
Personnel	897.6	971.2	1,037.6	8.2	6.8
Nonpersonnel	509.0	530.3	558.8	4.2	5.4
Board of Governors ³	103.7	112.9	128.8	8.9	14.1
Personnel	79.0	86.8	94.5	9.9	8.9
Nonpersonnel	24.7	26.1	34.3	5.7	31.4
System operating expenses	1,510.3	1,614.4	1,725.2	6.9	6.9
Personnel	976.6	1,058.0	1,132.1	8.3	7.0
Nonpersonnel	533.7	556.4	593.1	4.3	6.6
Special projects ⁴	5.2	6.8	20.1	...	...
Currency ⁵	192.9	260.2	325.8	34.9	25.2

1. In this and subsequent tables in this volume, details may not sum to totals and may not yield percentage changes shown because of rounding.

2. For detailed information, see chapter 3.

3. Includes expenses of the Office of Inspector General. For detailed information, see chapter 2.

4. See text note 1 and appendix C.

5. See text note 2 and appendix C.

Table 1.2

Operating Expenses of the Federal Reserve System, Net of Receipts
and Claims for Reimbursement, 1990-92

Millions of dollars, except as noted

Item	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Total System operating expenses	1,510.3	1,614.5	1,725.2	6.9	6.9
LESS					
Revenue from priced services	746.5	758.4	786.1	1.6	3.7
Other income	19.1	19.4	5.0 ¹	1.6	-74.2
Claims for reimbursement ²	140.3	149.7	157.9	6.7	5.5
EQUALS					
Net System operating expenses	604.4	687.0	776.2	13.7	13.0

1. Beginning January 1992, fees for transfer of U.S. Treasury book-entry securities will no longer be included in "Other income," but will be forwarded directly to the Treasury's account.

2. Costs of fiscal agency services provided to the U.S. Treasury and other government agencies for which the agencies have agreed to reimburse the Federal Reserve. In practice, not all these claims are paid.

Table 1.3
Revenue from Priced Services, 1990–92
Millions of dollars

Service	1990 actual	1991 estimate	1992 budget
Funds transfers and net settlement	79.7	79.6	87.6
Automated clearinghouse services	53.5	58.8	64.9
Commercial checks	571.9	578.2	592.7
Book-entry securities transfers	10.7	11.6	12.3
Definitive securities safekeeping	5.3	4.5	3.9
Noncash collection	10.8	10.6	9.4
Special cash services	14.5	15.1	15.4
Total	746.4	758.4	786.2

and the Treasury. (But see note 2 in table 1.2.)

Claims for reimbursement represent the expenses incurred by Reserve Banks in providing fiscal agency services to the U.S. Treasury or to other government agencies and for which the agencies have agreed to reimburse the Federal Reserve.

Trends in Expenses and Employment

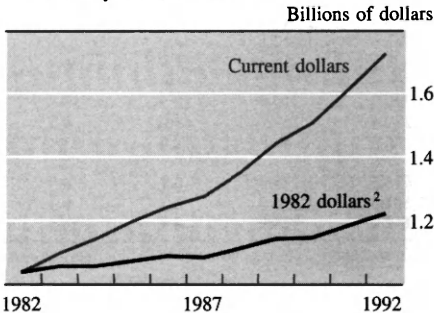
From 1982 (actual expenditures) to 1992 (amount budgeted), the expenses of the Federal Reserve System have increased

an average of 5.2 percent per year in current dollars and 1.6 percent when adjusted for inflation (chart 1.2). Over the same ten-year period, System employment has increased by 666 (chart 1.3).

From 1982, when the transition to the requirements of the Monetary Control Act of 1980 was completed, through 1984, System expenses remained essentially flat when adjusted for inflation, and employment declined. In 1985, the Federal Reserve increased the staff in a pronounced effort to strengthen supervision and regulation of member banks and bank holding companies. The System was able partially to offset the increase in staff through reductions in employment in other areas, primarily in services to financial institutions and the public and in support and overhead.

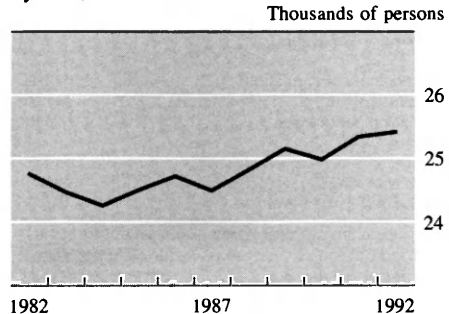
In 1988, the Expedited Funds Availability Act (title VI of Public Law 100–86, the Competitive Equality Banking Act of 1987) became effective. The act requires the Federal Reserve to issue regulations to ensure the prompt availability of funds and the expeditious return of checks. Increases in staff throughout the System in 1988 and 1989 resulted from implementing the provisions of this legislation.

Chart 1.2
Operating Expenses of the Federal
Reserve System, 1982–92¹
Billions of dollars



1. For 1991, estimate; for 1992, budget.
2. Calculated with the GNP price deflator.

Chart 1.3
Employment in the Federal Reserve
System, 1982–92¹
Thousands of persons



1. For 1991, estimate; for 1992, budget.

In 1990 and 1991, several major factors influenced expense and staffing levels in the System. The System continued nationwide expansion of the Regional Delivery System, which will centralize the issuance of over-the-counter savings bonds. Spending on bank supervision expanded, reflecting an increase in the number and complexity of examinations, increased attention to problem institutions, and passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

Operational Areas

Federal Reserve expenses are classified for budgeting purposes according to the four major operational areas of the System: monetary and economic policy, services to the U.S. Treasury and other government agencies, services to finan-

cial institutions and the public, and supervision and regulation (table 1.4). Costs for support and overhead are redistributed or allocated to these four areas. Only the Reserve Banks perform services for the Treasury and other government agencies. The operational area unique to the Board of Governors, System policy direction and oversight, is considered an overhead expense of the System (see chapter 2).

1992 Budget Initiatives

Several major initiatives will continue or will begin in 1992. The System will continue to improve facilities at several head office and branch buildings, and recently completed projects will be subject to real estate tax increases.

The upward pressures on expenses and staffing associated with supervision

Table 1.4

Operating Expenses of the Federal Reserve System, by Operational Area, 1990-92¹

Millions of dollars, except as noted

Operational area and entity	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Monetary and economic policy.....	162.9	176.5	188.8	8.3	7.0
Reserve Banks.....	99.0	107.5	113.0	8.6	5.1
Board of Governors.....	63.9	69.0	75.8	8.0	9.9
Services to the U.S. Treasury and other government agencies ²	156.9	169.4	180.1	8.0	6.3
Services to financial institutions and the public.....	942.4	988.9	1,046.3	4.9	5.8
Reserve Banks.....	938.9	985.3	1,042.1	4.9	5.8
Board of Governors.....	3.5	3.6	4.2	2.9	16.7
Supervision and regulation.....	248.2	279.7	310.0	12.7	10.8
Reserve Banks.....	211.9	239.4	261.2	13.0	9.1
Board of Governors.....	36.3	40.3	48.8	11.0	21.1
Total.....	1,510.4	1,614.5	1,725.2	6.9	6.9
Reserve Banks.....	1,406.7	1,501.6	1,596.4	6.7	6.3
Board of Governors ³	103.7	112.9	128.8	8.9	14.1

1. Operating expenses reflect all allocations for support and overhead and exclude capital outlays. The operational area unique to the Board of Governors, System policy direction and oversight, which is shown separately in chapter 2, has been allocated across the operational areas listed here. As a result, the numbers for the operational

areas in chapter 2 are not the same as the numbers shown in this table.

2. Reserve Banks only. The Board of Governors does not provide these services.

3. Includes expenses of the Office of Inspector General.

and regulation activities will carry over from 1991 into 1992.

Nine Reserve Banks will upgrade check systems to improve the efficiency of check processing.

The System will continue automation projects related to office automation, contingency, and increased computer capacity.

Expenses for fiscal services will continue to increase as the System moves into the final phase of implementing the Regional Delivery System for savings bonds.

Besides these initiatives, the continued rise in health care costs and an increase in the matching contribution under the thrift plan for System employees have contributed to the 1992 budget increase.

Partly offsetting these increases are productivity and operational improvements in a number of areas. ■

Chapter 2

Board of Governors

The 1992 budget of the Board of Governors comprises three parts: a Board operations budget of \$123.6 million, an extraordinary items budget of \$3.2 million for special projects of a unique or one-time nature, and an Office of Inspector General budget of \$2.0 million. The Board authorized 1,608 positions for the operational areas and 21 for the Office of Inspector General; no positions are required for the extraordinary items budget.

Overview of the Budget

Board Operations

The operations budget of \$123.6 million, which covers the Board's four operational areas, is 11.4 percent greater than estimated 1991 expenses. Increases in salaries and benefits for current personnel and in the price of goods and services account for 51 percent of the rise. Initiatives to increase staffing and improve automation, largely in the supervision and regulation and monetary and economic policy operational areas, account for the remaining 49 percent.

The budget adds a total of forty-one positions and abolishes two for a net increase of thirty-nine. Of this total, twenty-five positions are for the supervision and regulation function. Coupled with positions added during 1991 and fewer vacancies, the new positions will enhance the Board's ability to manage a growing workload in international supervision, enforcement, and litigation as well as increased responsibilities arising from such legislation as the For-

eign Bank Supervisory Enhancement Act. Fourteen positions have been added for the monetary and economic policy function to strengthen and expand long-term research, to help in a nationwide effort to improve the quality of government economic statistics, and to enhance analytical capabilities through additional automation.

Major Initiatives

The operations budget provides for increased staffing, improved training programs, and improved automation support for the supervision and regulation function. These changes are necessary to meet continued growth in workload, particularly in international supervision, policy analysis, applications, litigation, and enforcement. Initiatives in the area of monetary and economic policy require increased staffing to support a governmentwide effort to improve economic statistics. Other important initiatives are more Boardwide in focus and include improved automation capabilities, a higher level of facilities maintenance, and creation and acquisition of additional office space. The budget does not include funds to meet requirements of potential legislation. If legislation is passed, new requirements will be considered by the Board. Also, the budget does not provide funds for a special investigative unit proposed for the supervision and regulation function but not yet fully developed or costed out. A proposal will be presented to the Board when the objectives are reviewed and the necessary resources identified.

Extraordinary Items

The \$3.2 million budget for extraordinary items covers a 1992 Survey of Consumer Finances to enhance the quality of economic data, an audit of the Federal Reserve Bank of Kansas City by an outside firm, and a study by an outside consultant to ensure the security of the transfer of funds and securities via Fedwire.

Office of Inspector General

The \$2.0 million budget for the Office of Inspector General is \$0.3 million, or 17.1 percent, greater than estimated 1991 expenses. The majority of the increase will fund two new audit manager positions. Also included in the budget is an increase for travel and training associated with implementation of a new Developmental Assignment Program.

Operations Budget by Operational Area

The 1992 Board activities fall into four broadly defined operational areas:

monetary and economic policy, supervision and regulation, services to financial institutions and the public, and System policy direction and oversight (also see chapter 1 and appendix A). For each operational area, the costs shown include support and overhead expenses, which are allocated to each area in proportion to direct expenses. Higher costs associated with salary increases, rate increases for insurances, and other items that affect expenses in all operational areas are not discussed separately by area, but they are included in the discussion by object class. Data on expenses and positions for each operational area for 1990-92 are shown in tables 2.1 and 2.2.

Monetary and Economic Policy

The budget for monetary and economic policy is \$59,712,000; this amount is \$4,482,000, or 8.1 percent, more than estimated 1991 expenses. The budget provides an increased level of funding for the divisions that support this

Table 2.1

Expenses of the Board of Governors for Operational Areas, Extraordinary Items, and Office of Inspector General, 1990-92¹

Thousands of dollars, except as noted

Type of expense	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
Monetary and economic policy	51,259	55,230	59,712	3,971	7.7	4,482	8.1
Supervision and regulation ..	29,092	32,223	38,649	3,131	10.8	6,426	19.9
Services to financial institutions and the public	2,765	2,947	3,328	182	6.6	381	12.9
System policy direction and oversight	19,283	20,465	22,216	1,182	6.1	1,751	8.6
Total, Board operations ...	102,399	110,865	123,555²	8,466	8.3	12,689	11.4
Extraordinary items	0	335	3,161	335	...	2,826	...
Office of Inspector General ..	1,341	1,714	2,007	373	27.8	293	17.1

1. Operating expenses include allocations for support and overhead.

2. The Savings Target has been removed from the total, but not from the individual operational areas; therefore, the details do not sum to the total.

function to meet an increasing workload, expand long-term research, and improve the quality of economic data. Automation initiatives, including continuation of the phased development of the research computing system, are key elements of the divisions' plans to manage the workload. Because productivity improvements alone are no longer sufficient, the budget requests fourteen new positions: six economists, five research assistants, and three information systems analysts. (A fourth information systems analyst position added in the Division of Research and Statistics supports the supervision and regulation function.)

Investments in research automation have produced productivity gains that, combined with adjustments in priorities and reductions in long-term research, have limited the degree of staff growth. The greater personnel requirements, in large measure driven by an effort to meet analytical requirements at the Board, also reflect increased support for the Division of Banking Supervision and Regulation and the Division of Consumer and Community Affairs. Questions on such topics as the farm

credit system, insurance companies, interest-rate risk, capital standards, and regulation of government-sponsored enterprises have added to the workload. Studies on banking legislation, deposit insurance, and consolidation in the banking industry are typical of areas requiring increased attention not possible with the current level of resources. The additional staff resources will slow continued growth in the volume of uncompensated overtime by exempt personnel and will allow for a moderate increase in long-term research.

Supervision and Regulation

The budget for supervision and regulation is \$38,649,000; this amount is \$6,426,000, or 19.9 percent, more than estimated 1991 expenses. A significant portion of the large increase will fund new staff positions. Twenty-five positions have been added, eighteen in the Division of Banking Supervision and Regulation, six in the Legal Division, and one in the Division of Research and Statistics. (A seventh position added in

Table 2.2

Positions Authorized at the Board of Governors for Operational Areas, Support and Overhead,¹ and Office of Inspector General, 1990–92

Type of expense	1990 actual	1991 estimate	1992 budget	1990–91 change		1991–92 change	
				Amount	Percent	Amount	Percent
Monetary and economic policy	401	401	415	0	0	14	3.5
Supervision and regulation ..	280	293	318	13	4.6	25	8.5
Services to financial institutions and the public	20	22	22	2	10.0	0	0
System policy direction and oversight	155	154	154	-1	-6	0	0
Support and overhead	701	699	699	-2	-.3	0	0
Total, Board operations ..	1,557	1,569	1,608	12	.8	39	2.5
Office of Inspector General ..	19	19	21	0	0	2	10.5

1. Support and overhead positions not allocated to operational areas.

the Legal Division is associated with support and overhead.) These positions, in conjunction with positions added during 1991, particularly four attorney positions added in the Legal Division late in the year, account for the majority of the increase.

The additional Division of Banking Supervision and Regulation positions are required to meet the division's current workload. The six positions in the Legal Division were added largely in anticipation of passage of the Foreign Bank Supervisory Enhancement Act. No new positions have been added in the Division of Consumer and Community Affairs; however, should merger activity or protested actions increase significantly, that division may also require additional resources.

In addition to costs associated directly with new initiatives, the budget continues to fund the Board's share of the automation costs for development of the National Information Center (NIC). This project will be the sole source of consolidated structure and financial data and will be of major benefit to the supervision and regulation operational area. The 1992 effort will be devoted primarily to the transition from existing software to the NIC database. Development of the NIC will reduce Systemwide costs, improve data integrity, and lead to more timely and more meaningful analysis of applications, merger requests, and other actions.

Automation enhancements are needed to allow the divisions to replace obsolete equipment with equipment capable of greater interaction with the NIC, Bank Holding Company Performance Report (BHCPR), Home Mortgage Disclosure Act (HMDA), and other critical databases. The upgraded equipment will improve the staff's ability to meet tight deadlines and will result in higher-quality analyses and finished products.

Services to Financial Institutions and the Public

The budget for services to financial institutions and the public is \$3,328,000, an amount \$381,000, or 12.9 percent, more than estimated 1991 expenses. This operational area is composed almost entirely of programs supporting the payments function in the Division of Reserve Bank Operations and Payment Systems. The increase will fund development and improvement of the cash tracking project for the System and a lower level of staff vacancies.

System Policy Direction and Oversight

The budget for the System policy direction and oversight operational area is \$22,216,000, a \$1,751,000, or 8.6 percent, increase over estimated 1991 expenses. This function is composed of most of the Division of Reserve Bank Operations and Payment Systems and parts of the Offices of Board Members, Secretary, and Staff Director for Management.

The increase in this budget is less pronounced than the increases in the budgets for other operational areas because of fewer initiatives. Much of the rise is tied to a lower level of vacancies and a new position in the Office of Board Members. Development of main-frame software to provide improved financial information to the Division of Reserve Bank Operations and Payment Systems also affects costs.

Operations Budget by Division

Table 2.3 shows the 1992 budget for each Board division, office, and special account. The figures highlight the budget's emphasis on the supervision and regulation operational area, im-

proved distributed processing and office automation, and the economic statistics improvement project. Table 2.4 gives the number of authorized positions by division and office.

Division of Banking Supervision and Regulation

As a result of existing law and the condition of the banking industry, the workload in the Division of Banking Supervision and Regulation continues to increase in volume and complexity. The division's budget increase, \$3.4 million, or 24.4 percent, over estimated 1991 expenses, provides for new positions,

automation, and training resources. The Bank Holding Company Performance Report will be rewritten to improve responsiveness to System staff and to implement new ratio definitions.

The addition of eighteen positions will support a greater volume of international and multinational work, policy analyses, and applications issues. Much of the increase in workload continues to be driven by the condition of the banking industry, including requirements for increased enforcement, more detailed analysis of mergers and applications, rapid processing of government-assisted transactions, and development of policies related to

Table 2.3

Expenses of the Board of Governors, by Division, Office, or Special Account, 1990-92

Division, office, or special account	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
Board Members	3,111,602	3,414,465	3,750,732	302,863	9.7	336,267	9.8
Secretary	3,100,526	3,449,313	3,581,553	348,787	11.2	132,240	3.8
Legal	4,682,066	4,996,667	5,996,364	314,601	6.7	999,697	20.0
Research and Statistics ..	20,498,526	21,718,513	23,642,884	1,219,987	6.0	1,924,371	8.9
International Finance ..	7,441,618	8,151,498	8,778,777	709,880	9.5	627,279	7.7
Banking Supervision and Regulation	11,712,263	13,947,628	17,349,519	2,235,365	19.1	3,401,891	24.4
Human Resources Management	3,321,848	3,655,868	4,037,932	334,020	10.1	382,064	10.5
Support Services	19,040,146	18,978,303	20,727,583	-61,843	-3	1,749,280	9.2
Controller	1,763,916	1,893,262	2,051,530	129,346	7.3	158,268	8.4
Consumer and Community Affairs	2,761,321	3,331,146	3,593,281	569,825	20.6	262,135	7.9
Staff Director for Management	4,048,852	5,269,386	5,739,801	1,220,534	30.1	470,415	8.9
Reserve Bank Operations and Payment Systems	9,838,372	10,770,462	11,669,347	932,090	9.5	898,885	8.3
Information Resources Management	19,550,103	21,059,940	22,967,821	1,509,837	7.7	1,907,881	9.1
Monetary Affairs	8,209,392	8,719,504	9,116,691	510,112	6.2	397,187	4.6
Special projects	1,254,264	1,236,479	1,589,314	-17,785	-1.4	352,835	28.5
IRM income account ¹ ..	-17,935,439	-19,727,434	-21,038,617	-1,791,995	-10.0	-1,311,183	-6.6
Total, Board operations	102,399,376	110,865,000	123,554,512	8,465,624	8.3	12,689,512	11.4
Extraordinary items	0	335,000	3,161,000	335,000	...	2,826,000	...
Office of Inspector General	1,341,281	1,714,492	2,007,673	373,211	27.8	293,181	17.1

1. Income from various Board divisions for use of central IRM (Division of Information Resources Management) resources.

innovations in the marketplace, such as mortgage-backed securities. Finally, the budget funds continued upgrades to office automation equipment and the expansion of network facilities.

The division's budget does not fund any requirements that might result from such proposed legislation as a banking reform bill or legislation similar to the Foreign Bank Supervisory Enhancement Act. Nor are funds budgeted for a proposed special investigative unit, pending development of requirements and identification of necessary resources.

Legal Division

The budget for the Legal Division has increased by \$1.0 million, or 20 percent over estimated 1991 expenses, to a total of \$6.0 million. Most of the increase will cover the costs of four attorney

positions added in late 1991 and seven new positions to be added in 1992. The positions added in 1991 were needed to handle growth in the international and litigation areas. The 1992 positions are needed as a result of recent legislation on international supervision, which significantly increased requirements for policy analysis and formulation.

Division of Information Resources Management

The increase in the 1992 budget for the Division of Information Resources Management, to a total of \$23.0 million, is needed to fund vendors' increases in prices of software and maintenance and to provide contractual support to meet the division's labor requirements. The increase will also fund initiatives to support requirements throughout the

Table 2.4

Positions Authorized at the Board of Governors, by Division or Office, 1990-92

Division or office	1990 actual	1991 estimate	1992 budget	Change	
				1990-91	1991-92
Board Members	40	38	38	-2	0
Secretary	57	58	57	1	-1
Legal	67	72	79	5	7
Research and Statistics	255	256	268	1	12
International Finance	103	103	105	0	2
Banking Supervision and Regulation	174	183	201	9	18
Human Resources Management	48	48	48	0	0
Concern ¹	22	22	22	0	0
Support Services	259	259	259	0	0
Controller	31	31	31	0	0
Consumer and Community Affairs	42	43	43	1	0
Staff Director for Management	8	7	7	-1	0
Reserve Bank Operations and Payment Systems	113	116	116	3	0
Information Resources Management	275	271	271	-4	0
Monetary Affairs	61	62	63	1	1
Special projects	2	0	0	-2	0
Total, Board operations	1,557	1,569	1,608	12	39
Office of Inspector General	19	19	21	0	2
FFIEC ²	11	12	12	1	0

1. EEO Concern positions managed by the Division of Human Resources Management.

2. Federal Financial Institutions Examination Council.

Board, such as improved records management and the premise-wide network, as well as some internal projects such as upgraded micro-computers.

Division of Research and Statistics

The budget for the Division of Research and Statistics is \$23.6 million, an increase of \$1.9 million, or 8.9 percent, over estimated 1991 expenses. Most of the increase is tied to the twelve new positions in 1992 and consulting services for the statistics improvement project. The new positions are needed to meet requirements for a larger number of banking, regulatory, and capital analyses and to improve the division's ability to perform long-term research. Five of the positions, as well as consulting support and automation resources, are needed for the project the division is undertaking in conjunction with government efforts to improve economic statistics. The budget also includes funds for continued expansion of the distributed processing system for the research divisions.

Division of Reserve Bank Operations and Payment Systems

The 1992 budget for the Division of Reserve Bank Operations and Payment Systems is \$11.7 million, an increase of \$0.9 million, or 8.3 percent, over estimated 1991 expenses. The increase is needed to enhance software for support of the System's cash and currency tracking projects and for office automation enhancements. A small portion of the increase will be used to address payments system issues in Eastern Europe and to adjust, through training, to the changing requirements affecting the skill mix of the division's staff.

Division of Support Services

The 1992 budget for the Division of Support Services is \$21.0 million, an increase of \$1.7 million, or 9.2 percent, over estimated 1991 expenses. Requirements for new office space to accommodate new positions budgeted for 1992 will add costs for reconfiguration of Board premises and additional leasing. The increase also will fund a higher level of maintenance necessary to care for aging facilities. Depreciation for 1991 capital investments in facilities and new telephone and security systems will also add cost.

Operations Budget by Object of Expense

The most significant expense item in the Board's 1992 budget is personnel expenses, which account for 75 percent of operating expenses. The increase in the salary budget, \$6.3 million, includes not only annual salary increases for current personnel but also salaries for new positions, both those added in late 1991 and the thirty-nine positions added for 1992. A lower vacancy rate also contributes to the increase. Retirement costs for 1992 are \$0.7 million, or 12.5 percent, greater than estimated 1991 expenses, primarily because of increases in the Board's matching contribution to the thrift plan and in the wage base subject to social security and medicare taxes.

Insurance costs also are up over estimated 1991 expenses, by \$0.3 million, or 5.4 percent. The rate increase for the Board's health insurance plan, combined with a higher level of staffing from new positions and fewer vacancies, accounts for \$0.4 million of the increase. The rate increases for the Federal employee health benefits plan, the effect of higher salaries on medicare, and

miscellaneous increases add \$0.1 million. Partially offsetting these increases is a \$0.2 million decrease in workers compensation, reflecting a large one-time payout in 1991.

Table 2.5 presents the budget by object of expense. Increased use of contractual professional services will provide

software development support for important projects as well as expert advice for data improvement and examiner training initiatives, and at the same time will keep increases in permanent staffing to a minimum. Travel costs are expected to be higher in 1992 because of higher airfares, a greater

Table 2.5

Operating Expenses of the Board of Governors, by Object of Expense, 1990-92

Object of expense	1990 actual	1991 estimate	1992 budget	1990-91 change		1991-92 change	
				Amount	Percent	Amount	Percent
<i>Personnel</i>							
Salaries	68,565,290	73,821,168	80,165,410	5,255,878	7.7	6,344,242	8.6
Retirement	4,600,876	5,232,478	5,888,294	631,602	13.7	655,816	12.5
Insurance	4,931,007	6,462,477	6,812,277	1,531,470	31.1	349,800	5.4
Total	78,097,173	85,516,123	92,865,981	7,418,950	9.5	7,349,858	8.6
<i>Goods and services</i>							
Travel	3,402,408	3,791,561	4,502,591	389,153	11.4	711,030	18.8
Postage and expressage	1,141,989	1,245,076	1,270,800	103,087	9.0	25,724	2.1
Telephone and telegraph	1,758,280	1,698,767	1,641,150	-59,513	-3.4	-57,617	-3.4
Printing and binding	1,153,340	1,109,802	1,112,400	-43,538	-3.8	2,598	.2
Publications	-558,890	-651,750	-471,280	-92,860	-16.6	180,470	27.7
Stationery and supplies	897,458	866,475	863,481	-30,983	-3.5	-2,994	-.3
Software	2,100,704	2,463,726	3,037,952	363,022	17.3	574,226	23.3
Furniture and equipment	827,092	695,101	852,073	-131,991	-16.0	156,972	22.6
Rentals	-964,521	-917,677	-719,704	46,844	4.9	197,973	21.6
Books and subscriptions	578,255	630,541	721,343	52,286	9.0	90,802	14.4
Utilities	1,701,944	1,730,000	1,735,000	28,056	1.6	5,000	.3
Building repairs and alterations	943,208	877,921	1,723,500	-65,287	-6.9	845,579	96.3
Equipment repairs and maintenance	1,837,383	2,042,822	2,181,560	205,439	11.2	138,738	6.8
Contingency Processing Center expenses	236,866	238,100	291,922	1,234	.5	53,822	22.6
Contractual professional services	2,685,648	2,978,660	4,021,410	293,012	10.9	1,042,750	35.0
Tuition/registration and membership fees	601,730	757,800	989,929	156,070	25.9	232,129	30.6
Subsidies and contributions	529,289	714,210	682,254	184,921	34.9	-31,956	-4.5
Depreciation	5,881,929	5,795,775	6,378,380	-86,154	-1.5	582,605	10.1
All other	-451,909	-718,033	-126,230	-266,124	-58.9	591,803	82.4
Total	24,302,203	25,348,877	30,688,531	1,046,674	4.3	5,339,654	21.1
Total, Board operations	102,399,376	110,865,000	123,554,512	8,465,624	8.3	12,689,512	11.4
Extraordinary items	0	335,000	3,161,000	335,000	...	2,826,000	...
Office of Inspector General	1,341,281	1,714,492	2,007,673	373,211	27.8	293,181	17.1

volume of travel to resolve supervisory issues, and relocation costs for new staff. Software expenses are rising as a result of rate increases for mainframe software and the changing technological needs of the Board. Finally, with the aging of facilities, there is an increased need for building repairs and alterations.

Capital Budget

The capital budget for 1992 is \$5.0 million, or \$100,000 less than estimated 1991 expenditures. The budget provides for requirements in the areas of automation and telecommunications, improvements to facilities, and relatively small equipment replacements in such locations as the cafeteria.

Continued investment by all the Board's divisions in workstation, network, and office automation systems will cost \$3.3 million. The budgets for the divisions involved in research include funds for new and upgraded workstations, printers, and peripheral equipment. Also included are funds to enhance the system used by the Division of International Finance to make it compatible with both the DOS- and UNIX-based systems used throughout the Board. The budget for the Division of Information Resources Management includes funds for a premise-wide network and a document-management system. The budget for the Division of Banking Supervision and Regulation includes new file servers, improved microcomputers, and other enhancements to improve data storage, handling, and retrieval capabilities needed to take full advantage of all data sources, including the new supervisory information system. Automation equipment for new staff is also included in the budget.

The remaining funds are for smaller projects. For example, the Office of the Controller is acquiring a specialized

network to run the Financial Management System (FMS) more efficiently, using off-the-shelf software, in a distributed environment. The Division of Support Services is acquiring a larger network device on which to manage a large library of software tailored to its needs as well as a system to replace the computer that monitors and controls energy consumption. The division's budget also includes funds for a video-conferencing bridge that will improve communications and reduce Boardwide travel costs.

Facilities improvements include a number of projects. The first phase of a multiyear effort to repair concrete slabs in the north parking garage has been approved. A new air handler will improve heating, ventilation, and air conditioning in the data center. Capital funds will be required for reconfigurations to provide office space.

Software costing more than \$50,000 is capitalized. The budget includes funds for such software for the mainframe, the new FMS, and the distributed system for the Division of Support Services.

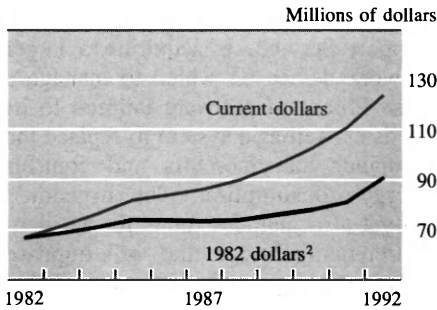
Trends

The increase in the 1992 operations budget of the Board over estimated 1991 expenses, 11.4 percent, is significantly greater than the 7.8 percent average annual rate of increase for the last five years and the 7.1 percent increase for the last ten years. The larger increase reflects the surge in workload that has finally exceeded the ability of managers to absorb through improved productivity. Charts 2.1 through 2.5 provide data on trends for the period from 1982.

Adjusted by the GNP deflator, the average annual increase in Board costs since 1982 has been 3.1 percent. Although this figure is low relative to the substantial growth in workload, the

Chart 2.1

Operating Expenses of the Board of Governors, 1982-92¹



1. Excludes the Office of Inspector General and extraordinary items. For 1991, estimate; for 1992, budget.

2. Calculated with the GNP price deflator.

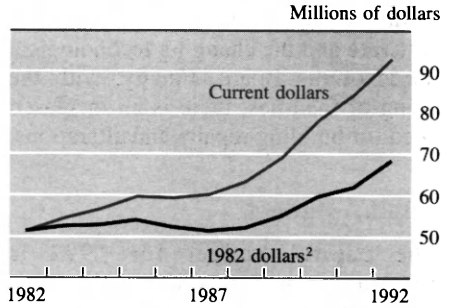
Year	Expenses in millions of	
	Current dollars	1982 dollars
1982	67.2	67.2
1983	71.6	69.1
1984	76.5	71.4
1985	82.0	74.3
1986	84.0	74.1
1987	86.3	73.8
1988	89.9	74.2
1989	95.6	76.3
1990	102.4	78.3
1991	110.9	81.4
1992	123.6	90.8

annual increase has been rising. For the ten years ending in 1990, the average annual increase was 1.5 percent. The recent rise is attributable to a higher level of staffing, adjustments of salaries resulting from the new employee-compensation program, and sharp increases in benefit costs, particularly for health insurance. The salary and benefit changes have had a particularly noticeable impact, as 75 percent of the Board's budget is for staffing.

For the first time since 1988, the goods and services budget increased at a faster pace than the personnel budget. The shift is a result of depreciation expenses on a larger stock of capitalized automation equipment, costs of maintaining the Board's facilities and pro-

Chart 2.2

Expenses for Personnel Services at the Board of Governors, 1982-92¹

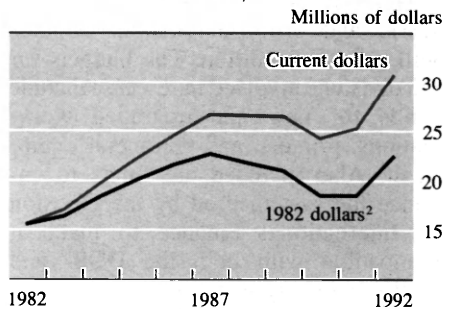


1. Excludes the Office of Inspector General. For 1991, estimate; for 1992, budget.

2. Calculated with the GNP price deflator.

Chart 2.3

Expenses for Goods and Services at the Board of Governors, 1982-92¹



1. Excludes the Office of Inspector General and extraordinary items. For 1991, estimate; for 1992, budget.

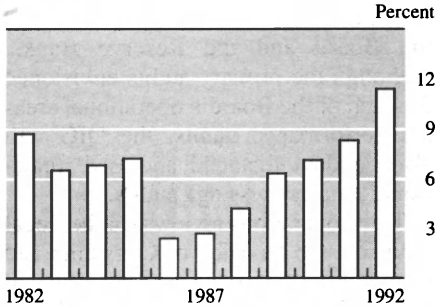
2. Calculated with the GNP price deflator.

viding additional office space, and a decision to satisfy software requirements through temporary contractual arrangements rather than hiring additional permanent staff. The latter decision was made in recognition of the temporary nature of the increased requirement for development of software for the mainframe.

Personnel costs have been affected by the increase in the total number of positions and the decline in the number of position vacancies. The 1992 increase

Chart 2.4

Annual Rate of Change in Operating Expenses of the Board of Governors, 1982–92¹



1. Excludes the Office of Inspector General and extraordinary items. For 1991, estimate; for 1992, budget.

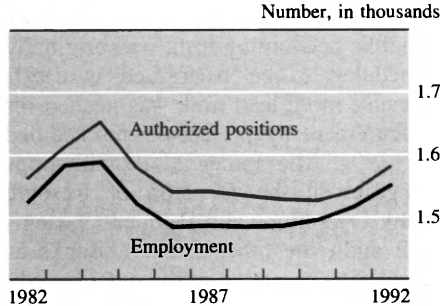
in positions, to a total of 1,608, returns the Board to the same number as in 1985. In recent years, increases in the supervision and regulation operational area were offset by decreases elsewhere. Between 1985 and 1991, the number of positions in the Division of Banking Supervision and Regulation increased from 138 to 183 while the overall number of positions at the Board declined.

The combined effects of the new employee-compensation program and the slowdown in the economy have resulted in a reduced rate of staff turnover and a lower level of vacancies. This is proving extremely important to the Board in meeting key requirements. Turnover in 1991 was the lowest in many years, and a low rate is projected in the 1992 budget.

The 1992 rate increase for the Board's health insurance plan, 6.3 percent, is significantly below the 22 percent annual rate of increase in the previous five years. The lower rate of increase reflects some reductions in the plan's benefits, necessary in light of the large and continuing increases that were pro-

Chart 2.5

Employment and Authorized Positions at the Board of Governors, 1982–92¹



1. Year-end data. Excludes twenty-eight summer intern and youth positions and Office of Inspector General. For 1991, estimate; for 1992, budget.

Year	Employment	Authorized positions
1982	1,525	1,563
1983	1,583	1,612
1984	1,588	1,653
1985	1,521	1,580
1986	1,484	1,540
1987	1,486	1,541
1988	1,484	1,534
1989	1,485	1,528
1990	1,495	1,529
1991	1,516	1,541
1992	1,550	1,580

jected to continue indefinitely without management action.

Extraordinary Items

Three projects are covered by the extraordinary items budget. The first is the 1992 Survey of Consumer Finances, which will collect important financial data used for a wide variety of policy analysis and monetary policy purposes. The project reflects the Board's interest in enhancing the quality of economic data by obtaining information on income, assets, debts, pensions, employment, use of financial services, savings behavior, and other characteristics of U.S. households. Cross-categorization of the data

will allow important statistical observations useful in a wide variety of economic studies.

The second project, an audit of the Federal Reserve Bank of Kansas City by a public accounting firm, was originally scheduled to be performed in 1991; because more lead time was needed for procurement, the project was rescheduled for 1992. The Financial Examinations Program in the Division of Reserve Bank Operations and Payment Systems will audit the other Reserve Banks as usual. The objective of the outside audit is to provide assurance that internal audits at the Reserve Banks achieve desired controls and standards consistent with those applied by the accounting profession.

The third project covered by the extraordinary items budget is a study by an outside consultant to ensure the security of the transfer of funds and securities via Fedwire. The study will focus on additional security enhancements that should be incorporated in the Federal Reserve System information security architecture to ensure the reliability and security of the Fedwire system.

Office of Inspector General

The 1992 budget for the Office of Inspector General (OIG) funds implementation of the 1992 portion of the *OIG Strategic Plan 1991-1995* to audit, review, and investigate Board operations, to help ensure economic and efficient use of the Board's resources.

The budget of \$2,007,673 is \$293,181, or 17.1 percent, higher than estimated 1991 expenses. The increase is due largely to the addition of two new audit manager positions and related expenses. The office's goods and services expenses will decrease slightly, primarily because

of a one-time software purchase in 1991 and reduced use of external legal services.

The office's operations continue to expand into the main mission areas of the Board and the Reserve Banks. Although the primary audits envisioned for each of the Board's operational areas are performance audits, the OIG will also conduct financial and EDP (electronic data processing) audits.

Three operations reviews (of the Legal Division, the Division of Consumer and Community Affairs, and the Office of Board Members) scheduled for 1992 are the last remaining to be conducted during the five-year cycle begun in 1988.

The two new audit manager positions added for 1992 will increase the number of authorized positions to twenty-one. The new audit managers will be responsible for specific audit sections. The investigation function will cover the full range of investigative requirements arising from complaints, indications of waste, fraud, and abuse identified by audit staff or management, and requests from management or the Congress. Advice on fraud detection also will be provided as part of the audits and operations reviews. Responsibilities for review of legislation and regulation will continue. ■

Chapter 3

Federal Reserve Banks

The 1992 operating budgets for the Federal Reserve Banks approved by the Board of Governors total \$1,596.4 million, an increase of \$94.8 million, or 6.3 percent, over estimated 1991 expenses (table 3.1). Not included in this amount are expenses for special projects related to Check Image Processing (\$4.3 million), Development of Currency Authentication Systems (\$9.3 million), and Automation Consolidation (\$6.5 million). Including the costs of these special projects, the Banks' 1992 budgets total \$1,616.5 million, an increase of \$108.1 million, or 7.2 percent, over estimated 1991 expenses.

Employment excluding the staff associated with the special projects is budgeted at 23,871 average number of personnel (ANP), an increase of 40 ANP, or 0.2 percent, over estimated 1991 employment.¹ Total budgeted employment including the special projects is 23,973, an increase of 140 ANP over estimated 1991 employment. The automation consolidation special project accounts for the 100 ANP increase related to special projects.

Expenses for personnel, which comprise salaries and benefits, account for \$1,037.6 million, or 65 percent of Reserve Bank expenses in 1992, an

increase of \$66.4 million, or 6.8 percent, over estimated 1991 personnel expenses (table 3.2). Nonpersonnel expenses are budgeted at \$558.8 million, an increase of \$28.5 million, or 5.4 percent, over 1991; these expenses are influenced primarily by automation and building projects.

The following two sections discuss the major initiatives and the budget objective for the Reserve Banks in 1992. Subsequent sections provide details for the four operational areas as well as objects of expense, capital outlays, and long-term trends. Appendix C gives details on capital outlays, special projects, and other special categories of expense. Appendix F gives further data by District and by operational area.

Major Initiatives

The 1992 increase in total expenses includes \$36.6 million for Reserve Bank initiatives (table 3.3). Among the initiatives are:

- Projects to improve facilities at head offices and branches
- Increased efforts in supervision and regulation
- Enhanced check and cash operations
- Increased efforts in automation
- Enhanced programs for the U.S. Department of the Treasury

Improvements to facilities throughout the System will add \$18.7 million in 1992. Expenses associated with two major building projects account for nearly all the increase: New York's East

1. The term *average number of personnel* describes levels and changes in employment at the Reserve Banks. ANP measures the number of employees in terms of full-time positions for the time period. For instance, a full-time employee who starts work July 1 counts as 0.5 ANP for that calendar year; two half-time employees who start January 1 count as 1 ANP. The ANP for any given year is the average number of full-time employees (measured in this way) in the months of that year.

Rutherford Operations Center (EROC) (\$9.2 million) and Dallas' new building (\$7.9 million). Ongoing building projects at the Cleveland, St. Louis, and Kansas City offices also contribute to the increase.

Initiatives in supervision and regulation will increase expenses by \$8.5 million and add 108 ANP; however, the net impact on the System will be 99 ANP because of staff decreases in a few Districts. A majority of the Banks attribute the need for additional staff to increased workloads, increased examination of foreign banks, and more problem institutions. Expenses related to travel and increased automation also will contribute to the increase in this area.

Nine Banks collectively have budgeted \$2.8 million to improve the efficiency of check systems. Most of these projects are continuing efforts and are contributing to a reduction in check-staff levels.

The Banks anticipate spending \$1.0 million in 1992 for enhanced currency processing. Increases are primarily in San Francisco for the full-year impact of additional processing equipment and staff to handle the projected growth in currency volume.

Projects related to office automation, contingency, and increased computer capacity will continue. These initiatives (excluding expenses for EROC and the new building in Dallas) are projected to

Table 3.1

Expenses and Employment at the Federal Reserve Banks, 1991-92¹

Category	1991 estimate	1992 budget	Change	
			Amount	Percent
<i>Expenses (millions of dollars)</i>				
Operations ²	1,501.6	1,596.4	94.8	6.3
Special projects	6.8	20.1	13.3	...
Total	1,508.4	1,616.5	108.1	7.2
<i>Employment (average number of personnel)³</i>				
Operations ²	23,831	23,871	40	.2
Special projects	2	102	100	...
Total	23,833	23,973	140	.6

1. Excludes capital outlays.

2. Includes support and overhead (see appendix F, table F.3, note 1, for definitions).

3. See text note 1 for definition of average number of personnel.

Table 3.2

Operating Expenses of the Federal Reserve Banks, by Object, 1990-92¹

Thousands of dollars, except as noted

Object	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Personnel	897,614	971,248	1,037,609	8.2	6.8
Nonpersonnel	509,038	530,333	558,796	4.2	5.4
Total	1,406,652	1,501,581	1,596,405	6.7	6.3

1. Includes the costs of support and overhead (see appendix F, table F.3, note 1, for definitions).

add \$2.0 million in 1992. Boston, Cleveland, and San Francisco have budgeted large office automation projects to enhance end-user computing. Philadelphia and Richmond plan to acquire software development tools to improve computer programming productivity. Atlanta has budgeted for equipment to improve contingency and reliability.

Expenses for fiscal services are projected to increase \$2.4 million. Of the overall increase, \$2.1 million will be incurred as the System moves into the final phase of implementation of the Regional Delivery System (RDS), which involves centralized issuance of over-the-counter savings bonds. The 1992 increase is primarily for expenses associated with the addition of 67 ANP. (A total staff increase of 350 ANP is projected by the time the RDS project is fully implemented.) In addition, Minneapolis anticipates increased expenses and ANP for the Savings Bond Masterfile project, as volume is projected to double in 1992. RDS and Masterfile staff increases are partially offset by staff decreases in other fiscal activities. Expenses related to Treasury initiatives are fully reimbursable.

The increase in the Reserve Banks' matching contributions to the employee thrift plan will add an estimated \$4.6 million to Bank expenses in 1992.

Partially offsetting these increases are initiatives that will result in savings of \$3.4 million. Savings have been identified at Boston, Cleveland, Kansas City, and San Francisco. The savings are being achieved by increased productivity and Districtwide consolidation of certain operations. San Francisco's check initiatives and the consolidation of its fiscal operations are expected to save \$1.1 and 25 ANP. Productivity gains in Cleveland's check, fiscal, and currency operations will produce savings of \$0.8 million and 34 ANP.

1992 Budget Objective

In 1991, the Board approved a two-tiered approach to establishing the 1992 budget objective. First the increase in general operating expenses was targeted at 4.5 percent of projected 1991 expenses. Then expenses for budget objective factors were estimated. The Board anticipated that these expenses, which include the costs of several Systemwide efforts and District-specific building projects, would add between 1.5 and 2.4 percentage points. Staff believed the figure would be at the lower end of the range and recommended an overall budget objective of 6.5 percent. This guideline excluded the expenses of special projects. Table 3.4 shows a comparison of the 1992 budget objective and the 1992 budget.

The 1992 budget increase for general operating expenses of 4.2 percent is \$4.9 million, or 0.3 percent, less than the budget objective. The Banks are under the 4.5 percent general operating expense target primarily because of lower-than-

Table 3.3

Operating Expenses Budgeted for
Major Initiatives of the
Federal Reserve Banks, 1992

Initiative	Millions of dollars	Percent of 1992 operating budget
Facility improvements	18.7	1.2
Supervision and regulation	8.5	.6
Enhanced check operations	2.8	.2
Currency initiatives	1.0	.1
Automation and contingency projects	2.0	.1
Fiscal initiatives	2.4	.2
Thrift plan	4.6	.3
Productivity and operational improvements	-3.4	-.2
Total	36.6	2.5
MEMO		
Increase in total operating expenses, 1991 estimate to 1992 budget	94.8	6.3

Table 3.4

Comparison of 1992 Budget Objective and Budget of the Reserve Banks over Estimated 1991 Expenses¹

Percent change

Item	1992 budget objective	1992 budget
Operating expenses	4.5	4.2
Budget objective factors	1.9	2.1
Special projects .....	.8	.8
Total	7.2	7.2

1. See data on expenses in table 3.1.

anticipated spending for daylight overdraft processing and a smaller-than-expected increase in postage expenses.

The increase of \$32.2 million, or 2.1 percent, for budget objective factors is within the range approved by the Board. The budgeted expenses for most of the factors vary only slightly from the budget objective, but the 1992 increase for supervision and regulation is expected to be \$8.5 million, or \$6.3 million more than anticipated. The increase in the budget objective for supervision and regulation, \$2.2 million, was based on an anticipated increase in staff of 55. The 1992 budget reflects a staff increase of 99 ANP. The deteriorating condition of banks on the east coast and the plan to expand examination programs throughout the System will require additional examiners.

Excluded from the 1992 spending target was the projected increase of \$5.2 million, or 0.3 percent, associated with the Check Image Processing and Currency Authentication Systems special projects. The 1992 budget for these projects represents an increase of \$6.7 million over the 1991 estimate, \$1.8 million for the Check Image project and \$4.8 million for the Development of Currency Authentication Systems. In addition, a new special project has been established to capture the costs associated with Automation Consolidation. The 1992 budget for this special project is \$6.5 million.

Operational Areas

Tables 3.5 and 3.6 summarize Reserve Bank expenses and employment in each of the four operational areas. Tables 3.7 through 3.10 show expense details for each area.

Monetary and Economic Policy

The 1992 budget increase of \$5.5 million, or 5.1 percent above 1991 estimated expenses, reflects a staff increase of 3 ANP, salary administration actions, increased equipment and data-processing costs associated with automation initia-

Table 3.5

Operating Expenses of the Federal Reserve Banks, by Operational Area, 1990-92

Thousands of dollars, except as noted

Operational area	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Monetary and economic policy	98,973	107,530	113,021	8.6	5.1
Services to the U.S. Treasury and other government agencies	156,934	169,355	180,060	7.9	6.3
Services to financial institutions and the public	938,862	985,340	1,042,078	5.0	5.8
Supervision and regulation	211,884	239,356	261,246	13.0	9.1
Total	1,406,652	1,501,581	1,596,405	6.7	6.3

tives, costs associated with new building projects in two Districts, and increased costs of the research libraries in some Districts. Staffing increases are due primarily to the full-year effect of economists hired during 1991.

At the District level, New York has budgeted for automation initiatives that include replacement of an information display system (IDS) in the Open Market and Foreign Exchange areas and installation of an office information system in the statistics area. New York's budget also reflects higher costs for data-processing support due to increased volume on the Securities Trading and Clearing System (STACS).

Services to the U.S. Treasury and Other Government Agencies

The 1992 budget for this operational area is projected to be \$180.1 million, or 6.3 percent greater than estimated 1991 expenses. Staffing levels are expected to decline by 8 ANP. The continued conversion of over-the-counter savings bonds to the Savings Bond Regional Delivery System will add 71 ANP to the consolidated operations—savings bonds area, but staff in other savings bonds activities will decrease by 55 ANP. Savings bond volume is expected to increase by 9.0 percent, while unit costs are budgeted to decrease by 0.4 percent.

Table 3.6

Employment at the Federal Reserve Banks, by Activity, 1990–92

Average number of personnel, except as noted¹

Activity	1990 actual	1991 estimate	1992 budget	Percent change	
				1990–91	1991–92
<i>Operational areas</i>					
Monetary and economic policy.....	772	791	794	2.4	.4
Services to the U.S. Treasury and other government agencies.....	1,816	1,909	1,902	5.1	–.4
Services to financial institutions and the public.....	9,214	9,121	8,974	–1.0	–1.6
Supervision and regulation.....	2,217	2,378	2,477	7.3	4.2
<i>Support and overhead²</i>					
Support.....	4,533	4,658	4,730	2.8	1.5
Overhead.....	4,940	4,974	4,995	.7	.4
Total.....	23,492	23,831	23,872	1.4	.2

1. See text note 1 for definition of average number of personnel.

2. See appendix F, table F.3, note 1, for definitions.

Table 3.7

Expenses of the Federal Reserve Banks for Monetary and Economic Policy, 1990–92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990–91	1991–92
Economic policy determination.....	80,157	86,186	90,543	7.5	5.1
Open market trading.....	18,816	21,344	22,477	13.4	5.3
Total.....	98,973	107,530	113,021	8.6	5.1

Services to Financial Institutions and the Public

The 1992 budget for this operational area, which includes both priced and nonpriced operations, is expected to increase by \$56.7 million, or 5.8 percent above estimated 1991 expenses. Staff is to be reduced by 147 ANP, primarily in the commercial checks (-118 ANP), definitive securities safekeeping and noncash collection (-13 ANP), and automated clearinghouse (-10 ANP)

operations. These decreases are partially offset by staff increases in currency and coin operations (19 ANP).

Commercial check processing is by far the largest service (\$504.9 million), accounting for almost half the budgeted expenses for this operational area and requiring 5,480 ANP; the anticipated increase in expenses is \$21.4 million, or 4.4 percent above estimated 1991 expenses. Staffing levels for 1992 include a reduction of 118 ANP resulting from improved operations, continued

Table 3.8

Expenses of the Federal Reserve Banks for Services to the U.S. Treasury and Other Government Agencies, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Savings bonds.....	40,069	37,143	35,576	-7.3	-4.2
Consolidated operations, savings bonds.....	13,566	23,724	28,593	74.9	20.5
Other Treasury issues.....	15,872	15,316	16,339	-3.5	6.7
Consolidated operations, other Treasury issues.....	1,495	1,275	1,396	-14.7	9.5
Central Treasury and agency services.....	21,950	22,338	23,636	1.8	5.8
Government accounts.....	23,926	24,778	26,467	3.6	6.8
Food coupons.....	15,546	18,499	19,702	19.0	6.5
Other.....	24,508	26,282	28,351	7.2	7.9
Total.....	156,933	169,355	180,060	7.9	6.3

Table 3.9

Expenses of the Federal Reserve Banks for Services to Financial Institutions and the Public, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Currency and coin.....	156,240	168,215	183,279	7.7	9.0
Special cash.....	13,652	14,208	14,695	4.1	3.4
Commercial checks.....	473,099	483,528	504,892	2.2	4.4
Other checks.....	24,650	27,965	29,816	13.5	6.6
Funds transfer.....	63,731	71,562	75,742	12.3	5.8
Automated clearinghouse.....	78,880	82,598	89,527	4.7	8.4
Book-entry securities transfers.....	31,027	33,318	35,274	7.4	5.9
Definitive securities safekeeping and noncash collection.....	14,710	14,542	14,288	-1.1	-1.7
Loans to members and others.....	15,073	15,987	16,826	6.1	5.2
Public programs.....	43,762	48,710	51,977	11.3	6.7
Other.....	24,038	24,708	25,764	2.8	4.3
Total.....	938,862	985,340	1,042,079	5.0	5.8

automation in the area of check adjustments, reductions in adjustment backlogs, conversion to optical disk storage systems in several Districts, and continued improvements in processing return items. Commercial check volume is budgeted to decrease 0.2 percent, while unit costs are budgeted to increase 4.2 percent.

Expenses for the currency service are expected to increase \$13.3 million, or 9.3 percent, over 1991. Staff will increase by 19 ANP. Currency volume is projected to grow by 6.1 percent in 1992. The major initiatives affecting this service are managing increased volumes and the Second Generation Currency Processing project.

The automated clearinghouse (ACH) service is budgeted to increase by \$6.9 million, or 8.4 percent. Growth in expenses will shift from government to commercial ACH services, as commercial ACH volumes continue to grow at faster rates. Total ACH volume is projected to increase 15.9 percent in 1992, resulting in a 6.4 percent decrease in unit cost. Major initiatives affecting this service are conversion to All-Electronic ACH service and the Future ACH System project.

Expenses for the funds transfer service are expected to increase by \$4.2 million, or 5.8 percent. Staff will

decrease by 7 ANP. The increase in costs is primarily the result of increased data-processing, data-communications, and data-systems support costs associated with volume growth. Some accounting costs allocated to this service will decrease as a result of funds summarization initiatives.

Supervision and Regulation

The increase of \$21.9 million, or 9.1 percent, for this operational area is due mainly to the addition of 99 ANP and increases in compensation, equipment (primarily laptop computers), travel, training, and automation. Staff increases are necessitated by increased demands on the Federal Reserve's examination staffs, including more examinations of broader scope, increased emphasis on Bank Secrecy Act issues, the need to monitor compliance with and pursue enhancements to international risk-based capital standards, the increasing number of organizations that are likely to require special attention in the form of extended examinations in several Districts, and continued strengthening of consumer affairs operations. Expenses are also affected by initiatives in the areas of payment system risk and daylight overdraft pricing.

Table 3.10

Expenses of the Federal Reserve Banks for Supervision and Regulation, 1990-92

Thousands of dollars, except as noted

Service	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Supervision of District financial institutions	131,328	151,430	168,666	15.3	11.4
Administration of laws and regulations related to banking	69,257	76,929	80,559	11.1	4.7
Studies of banking and financial market structures	11,298	10,997	12,021	-2.7	9.3
Total	211,884	239,356	261,246	13.0	9.1

Objects of Expense

Personnel expenses comprise officer and employee salaries, other compensation to personnel, and retirement and other benefits. Total personnel costs are expected to increase by 6.8 percent in 1992, accounting for 65.0 percent of Reserve Bank expenses (table 3.11).

Salaries and other compensation for personnel account for 52.0 percent of 1992 budgeted expenses, and anticipated growth is \$45.1 million, or 5.7 percent. The increase for salaries, \$46.6 million, or 6.0 percent, will be partially offset by a decline of \$1.5 million in other personnel expenses. Merit pay increases of \$37.1 million, or 4.8 percent, are the

primary reason for salary expense growth. Also contributing to additional salary expenses are promotions, reclassifications, structure adjustments, and staffing level increases. These increases are partially offset by short-term position vacancies (lag) and reduced overtime expenses.

Retirement and other benefits expenses, which account for 13.0 percent of the 1992 Reserve Bank budgets, are anticipated to increase by \$21.3 million, or 11.5 percent, over 1991. The increase is the result of continued escalation of hospital and medical costs, a rise in social security, workers compensation, and unemployment compensation payments, and the higher employer con-

Table 3.11

Operating Expenses of the Federal Reserve Banks, by Object, 1990-92

Thousands of dollars, except as noted

Object	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
PERSONNEL					
Officers' salaries	73,979	80,598	85,005	8.9	5.5
Employees' salaries	646,980	693,656	735,867	7.2	6.1
Other personnel ¹	12,872	11,329	9,784	-12.0	-13.6
Retirement and other benefits	163,784	185,666	206,954	13.4	11.5
Total personnel	897,615	971,249	1,037,610	8.2	6.8
NONPERSONNEL					
Forms and supplies	53,418	54,942	55,997	2.9	1.9
Equipment	162,773	167,862	179,611	3.1	7.0
Software	32,221	32,931	34,433	2.2	4.6
Shipping	83,461	89,661	91,295	7.4	1.8
Travel	28,883	32,383	33,970	12.1	4.9
Buildings					
Insurance	802	912	1,132	13.7	24.1
Real estate taxes	22,430	27,104	30,811	20.8	13.7
Property depreciation	33,545	35,666	40,228	6.3	12.8
Utilities	25,486	26,776	29,465	5.1	10.0
Rent	22,029	23,364	24,771	6.1	6.0
Other	19,194	19,178	20,259	-1	5.6
Total buildings	123,486	133,000	146,666	7.7	10.3
Recoveries	-35,204	-35,690	-38,033	1.4	6.6
All other ²	60,000	55,244	54,860	-7.9	-7
Total nonpersonnel	509,037	530,333	558,796	4.2	5.4
Total	1,406,652	1,501,582	1,596,406	6.7	6.3

1. Expenses for certain contractual arrangements, and miscellaneous personnel expenses.

2. Communications, fees, contra-expenses, shared costs distributed, shared costs received, support cost distributed, support cost received, and other.

tribution to the employee thrift plan in 1992.

Nonpersonnel expenses account for 35.0 percent of the 1992 Reserve Bank budgets, reflecting a projected increase of 5.4 percent over 1991.

Equipment expenses are expected to increase by 7.0 percent, accounting for 11.3 percent of total expenses in 1992. An equipment depreciation increase of \$8.4 million, or 9.5 percent, is attributable to continuing upgrades of data-processing equipment in some Districts, the full-year impact of equipment purchased in 1991, and the New York EROC and Dallas facilities programs.

Shipping expenses are projected to increase by 1.8 percent, accounting for 5.7 percent of Reserve Bank expenses in 1992. This small increase is due primarily to an increase in Interdistrict Transportation System costs offset by savings in postage costs as a result of RDS implementation.

Building expenses, which account for 9.2 percent of total 1992 expenses, are expected to increase by 10.3 percent over 1991 because of higher real estate taxes and the full-year effect of recently completed capital projects in a number of Districts. The New York EROC and

Dallas building projects contribute heavily to the large increases.

Recoveries are expected to increase by \$2.3 million, or 6.6 percent, in 1992, primarily because of increased income from tenants and expanded electronic ACH services.

Foreign travel expenses total \$2.6 million, up 8.5 percent over 1991 but accounting for only 0.2 percent of total expenses. Examiner travel, budgeted at \$1.6 million, is up 11.2 percent. Foreign travel expenses for Bank Presidents and First Vice Presidents, at \$186,000, are up 19.0 percent over estimated 1991 expenses. Of this amount, \$112,000 is budgeted for New York, primarily for that District's participation in the work of the Bank for International Settlements.

Capital Outlays

Capital outlays are budgeted at \$259.1 million, a decrease of \$24.0 million, or 8.5 percent, from estimated 1991 expenses (table 3.12). The decrease is a result of the near completion of two major building projects, the Dallas building and New York's East Rutherford Operations Center. The Reserve

Table 3.12

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1990-92

Thousands of dollars, except as noted

Class of outlay	1990 actual	1991 estimate	1992 budget	Percent change	
				1990-91	1991-92
Data-processing and data-communications equipment	94,715	72,221	112,452	-23.7	55.7
Buildings	76,313	138,753	51,257	81.8	-63.1
Furniture, furnishings, and fixtures	12,279	22,874	28,512	86.3	24.6
Other equipment	14,613	20,550	34,311	40.6	67.0
Land and other real estate	35,055	3,294	8,632	-90.6	162.0
Building machinery and equipment	8,906	23,571	18,665	164.7	-20.8
Leasehold improvements	1,012	1,813	2,830	79.1	56.1
Software .....	...	...	2,454	...	...
Total	242,893	283,076	259,112	16.5	-8.5

Banks' capital budgets continue to be dominated by outlays for data-processing and data-communications equipment.

Outlays for data-processing and data-communications equipment for 1992 amount to \$112.5 million, approximately 43.4 percent of total capital outlays. The largest portion of these outlays is for central processing units and check equipment (\$25.5 million), primarily for data- and check-processing systems at EROC (\$9.2 million) and Dallas (\$4.5 million). Purchases and upgrades of storage devices are planned by all Districts. In addition, Chicago has budgeted \$6.3 million for equipment related to a system communication center.

Purchases of furniture and other equipment are budgeted at \$62.8 million, about 24.2 percent of total capital outlays. New York's planned purchase of equipment for installation at EROC accounts for approximately one-fourth of these outlays (\$15.4 million). The Districts plan to spend approximately \$16.7 million on cash-related equipment, including currency processing machines at EROC and Baltimore (\$8.7 million), cash materials handling systems at several offices (\$3.9 million), and currency briquetters at EROC, Atlanta, and Chicago (\$1.0 million).

Building outlays account for \$51.3 million in the 1992 budget, about 19.8 percent of total capital outlays. The amount includes renovation and remodeling projects in several Districts (\$15.3 million), consulting fees associated with the planned new facility at Minneapolis (\$8.3 million), and construction of New York's EROC (\$6.3 million).

Land and other real estate purchases are budgeted at \$8.6 million. The largest item is land for the new Minneapolis building (\$4.2 million); another \$2.0 million is budgeted for a new parking lot at San Francisco's Portland office.

Building machinery and equipment outlays are budgeted at \$18.7 million. A large portion of these outlays is related to the Dallas building project (\$6.3 million); the remainder will enable several Districts to upgrade or replace existing machinery and equipment.

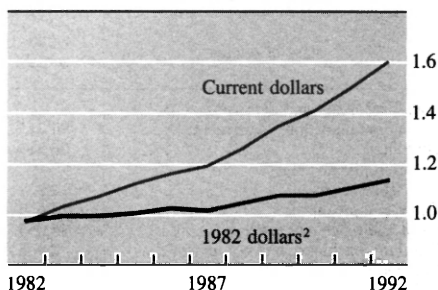
Outlays for leasehold improvements are budgeted at \$2.8 million.

Trends in Expenses and Employment

For the ten years ending in 1992, expenses of the Reserve Banks will have increased an average of 5.1 percent per year (chart 3.1). From 1987 through 1992, the annual growth in Bank expenses has been 5.9 percent. Increases in expenses were slightly higher after 1987 because of implementation of EFA (Expedited Funds Availability Act) and increased bank supervision.

The number of employees at the Reserve Banks has increased from 23,230 in 1982 to 23,871 in 1992, an increase of 641 ANP (chart 3.2). Since 1982, staffing has increased in supervision and regulation (681 ANP) and services to financial institutions and the public (408 ANP) because additional

Chart 3.1
Operating Expenses of the
Federal Reserve Banks, 1982-92¹
Billions of dollars

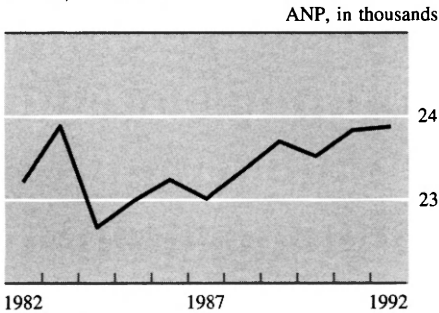


1. For 1991, estimate; for 1992, budget.

2. Calculated with the GNP price deflator.

Chart 3.2

Employment at the Federal Reserve Banks, 1982-92¹



1. For 1991, estimate; for 1992, budget. See text note 1 for definition of ANP.

resources were needed to meet expanded responsibilities in the two areas. Partially offsetting these increases were decreased staff in overhead services (681 ANP) resulting from Systemwide efforts to control costs.

Volume and Unit Costs

Volume for all measured operations is expected to increase by 2.8 percent over 1991, and unit cost is expected to rise by 2.9 percent (table 3.13). Over the years 1987 through 1992 budget, volume is expected to increase at an average annual rate of 3.1 percent and unit cost at an average annual rate of 1.8 percent. The increase in unit cost expected for 1992 reflects a rise in unit cost in all areas except ACH services and savings bonds. In the area of commercial checks, the largest component of the index, unit cost is expected to increase by 4.2 percent and volume to decrease by 0.2 percent; the decrease in volume is due primarily to bank mergers.

1991 Budget Performance

The 1991 Reserve Bank budgets were approved in December 1990 at a total of

Table 3.13

Changes from 1991 to 1992 in Volume and Unit Costs of Federal Reserve Bank Services

Percent

Service	Volume	Unit cost
Payments	2.4	2.4
Commercial checks	-0.2	4.2
Automated clearinghouse	15.9	-6.4
Funds transfers	4.5	1.3
Other checks	-1.1	7.0
Cash	4.8	3.6
Fiscal	3.8	3.5
Securities and noncash	-1.5	5.1
All services	2.8	2.9

\$1,501.0 million, an expected increase of \$86.4 million, or 6.1 percent, over estimated 1990 expenses. The Reserve Banks now estimate that 1991 expenses will have been \$1,501.6 million, or \$0.6 million over the approved budget.

Five Reserve Banks expect to be within 0.1 percent of their approved 1991 budgets. As a result of a building accident that caused water damage to its computer, Minneapolis anticipates a budget overrun of \$2.9 million, or 4.1 percent. Richmond anticipates a budget overrun of \$492,000, or 0.4 percent, primarily because additional staff are needed in the area of supervision and regulation. Seven Districts expect to be under budget by less than 1 percent. ■

Part II

Special Analysis

Chapter 4

Treasury Direct: A Book-Entry Safekeeping System for Individual Investors

Treasury Direct is a book-entry system for safekeeping Treasury securities that is operated by the Federal Reserve Banks, on behalf of the U.S. Department of the Treasury. The system is most suited to serving the needs of individual investors who tend to hold Treasury securities until maturity and prefer to safekeep the securities with the Treasury Department.

Treasury Direct was designed by the Federal Reserve System and the Treasury Department as part of the department's ongoing efforts to eliminate the handling of engraved Treasury securities; it is maintained on a central computer operated by the Federal Reserve Bank of Philadelphia. Introduction of the system in mid-1986 permitted the Treasury Department to begin issuing its securities in book-entry-only form (that is, no certificate is issued). Treasury officials estimate that in its first seven years of operation, Treasury Direct will have saved the department and U.S. taxpayers \$46 million through increased efficiency in securities issuance, servicing, redemption, and payment of interest.

Features of Treasury Direct

In addition to saving money, Treasury Direct has improved services to investors. For many investors, it offers a number of important advantages.

Added Security

Treasury Direct affords investors more safety than do engraved securities, because the securities are held on a

computer rather than in paper form. With engraved securities, loss or theft is always a concern. If an engraved security that was issued in registered form (that is, with the security owner's name inscribed on the security) is lost or stolen, replacement is possible, but the time and documentation required for replacement are considerable. If an engraved security issued in bearer form (that is, payable to the bearer) is lost or stolen, recovery is unlikely, and filing a claim entails considerable paperwork as well as cost and time. With Treasury Direct, there is no engraved security to be lost; instead, the security is held on a computer in the owner's name.

More Registration Options

Treasury Direct offers investors a broader choice of registration options than is available with engraved securities. The system also enables owners to establish clear ownership and survivorship rights to their securities. Among the popular registration options are designation of a beneficiary, joint ownership with or without right of survivorship, and registration of a natural guardian of a minor or custodian under an applicable "gifts to minors" statute. In addition, the registration on a Treasury Direct account can be changed faster than it can for engraved securities issued in registered form.

Improved Payment Procedures

Investors using Treasury Direct have greater assurance of prompt receipt of

securities-related payments. Payments are made automatically via direct deposit to a checking or savings account at a financial institution designated by the investor. Prior to Treasury Direct, all payments were made by check, and most were mailed to the investor; also, interest payments to investors holding bearer (coupon) securities were not automatic, but required investors to clip the maturing coupons and present them for collection. Treasury Direct provides payment automatically. In addition, the direct deposit feature precludes loss or theft of checks and gives investors immediate access to their funds on payment day.

Easier Reinvestment and Redemption

When an engraved security matures, it must be presented, in person or by registered mail, to a Federal Reserve Bank or Branch for redemption or reinvestment. In the Treasury Direct system, investors merely inform a Federal Reserve Bank or the Treasury Department, by mail, about how a maturing security should be handled. If it is to be redeemed, the investor's account at his or her depository institution is automatically credited for the redemption proceeds on the day the security matures. If it is to be reinvested in a Treasury security being issued the day the original security matures, the new security is added to the investor's Treasury Direct account, and any difference between the value of the maturing security and the purchase price of the new security is automatically deposited in the investor's account at a designated depository institution. Also, under Treasury Direct the investor is notified by mail when a security is about to mature and is given

ample time to request reinvestment at maturity or to cancel an earlier instruction to reinvest.

Simplified Recordkeeping

Treasury Direct account holders receive a single statement of account for all securities held under each registration option and with the same payment instructions. Such a consolidated statement can simplify bookkeeping for investors who hold a number of securities in the system.

Nationwide Servicing Offices

Investors can obtain information about and conduct transactions involving Treasury Direct accounts at the Treasury Department or at thirty-six Federal Reserve Banks and Branches around the United States (see accompanying list). All locations can establish new Treasury Direct accounts, process purchases of Treasury securities, handle securities transfers from one Treasury Direct account to another or from Treasury Direct to the Federal Reserve's commercial book-entry system, and make a variety of requested changes to account information. All locations will also provide forms and written information and handle telephone inquiries.

Each account holder is assigned a Treasury Direct servicing office based on mailing address. However, an account holder who travels or spends extended periods of time in a different location may deal with the servicing office nearest the temporary location. Any servicing office can conduct a transaction or handle an inquiry for any Treasury Direct account holder regardless of the assigned office.

Treasury Direct Servicing Offices

Federal Reserve Bank or Branch	Telephone Number	Address
FRB Atlanta	404-521-8657* 404-521-8653	Securities Service Department 104 Marietta Street, NW Atlanta, GA 30303
FRB Baltimore	301-576-3500* 301-576-3300	P.O. Box 1378 Baltimore, MD 21203
FRB Birmingham	205-731-8702* 205-731-8708	P.O. Box 10447 Birmingham, AL 35283
FRB Boston	617-973-3805* 617-973-3810	P.O. Box 2076 Boston, MA 02106
FRB Buffalo	716-849-5158* 716-849-5000	P.O. Box 961 Buffalo, NY 14240-0961
FRB Charlotte	704-358-2424* 704-358-2100	P.O. Box 30248 Charlotte, NC 28230
FRB Chicago	312-786-1110* 312-322-5369	P.O. Box 834 Chicago, IL 60690
FRB Cincinnati	513-721-4787 Ext. 334	P.O. Box 999 Cincinnati, OH 45201
FRB Cleveland	216-579-2490	P.O. Box 6387 Cleveland, OH 44101
FRB Dallas	214-651-6362	Security Dept. Station K 400 South Akard Street Dallas, TX 75222
FRB Denver	303-572-2475* 303-572-2470 or -2473	P.O. Box 5228 Denver, CO 80217-5228
FRB Detroit	313-963-4936* 313-964-6157	P.O. Box 1059 Detroit, MI 48231
FRB El Paso	915-544-4730	P.O. Box 100 El Paso, TX 79901
FRB Houston	713-659-4433	P.O. Box 2578 Houston, TX 77252
FRB Jacksonville	904-632-1178* 904-632-1179 or -1190	P.O. Box 2499 Jacksonville, FL 32231-2499
FRB Kansas City	816-881-2767* 816-881-2409	P.O. Box 440 Kansas City, MO 64198
FRB Little Rock	501-324-8272	P.O. Box 1261 Little Rock, AR 72203
FRB Los Angeles	213-624-7398	P.O. Box 2077 Terminal Annex Los Angeles, CA 90051
FRB Louisville	502-568-9240* 502-568-9236 or -9238	P.O. Box 32710 Louisville, KY 40232
FRB Memphis	901-523-7171 Ext. 641* Ext. 622	P.O. Box 407 Memphis, TN 38101
FRB Miami	305-471-6257* 305-471-6497	P.O. Box 520847 Miami, FL 33152
FRB Minneapolis	612-340-2051* 612-340-2075	250 Marquette Ave. Minneapolis, MN 55480

Treasury Direct Servicing Offices—Continued

Federal Reserve Bank or Branch	Telephone Number	Address
FRB Nashville	615-251-7236* 615-251-7100	301 Eighth Ave., N. Nashville, TN 37203-4407
FRB New Orleans	504-593-3290* 504-593-3200	P.O. Box 61630 New Orleans, LA 70161
FRB New York	212-720-5823* 212-720-6619	Federal Reserve P.O. Station New York, NY 10045
FRB Oklahoma City	405-270-8660* 405-270-8652	P.O. Box 25129 Oklahoma City, OK 73125
FRB Omaha	402-221-5638* 402-221-5636	2201 Farnam Street Omaha, NE 68102
FRB Philadelphia	215-574-6580* 215-574-6680	P.O. Box 90 Philadelphia, PA 19105
FRB Pittsburgh	412-261-7988* 412-261-7863	P.O. Box 867 Pittsburgh, PA 15230-0867
FRB Portland	503-221-5931* 503-221-5932	P.O. Box 3436 Portland, OR 97208-3436
FRB Richmond	804-697-8355* 804-697-8372	P.O. Box 27622 Richmond, VA 23261
FRB Salt Lake City	801-322-7844* 801-322-7900	P.O. Box 30780 Salt Lake City, UT 84130
FRB San Antonio	512-978-1330* 512-978-1303 or -1305	P.O. Box 1471 San Antonio, TX 78295
FRB San Francisco	415-974-3491* 415-974-2330	P.O. Box 7702 San Francisco, CA 94120
FRB Seattle	206-343-3615* 206-343-3605	Securities Services Dept. P.O. Box 3567 Terminal Annex Seattle, WA 98124
FRB St. Louis	314-444-8602* 314-444-8665	P.O. Box 14915 St. Louis, MO 63178
U.S. Treasury Department	202-874-4000 202-874-4026**	Bureau of the Public Debt Division of Customer Services Washington, DC 20239-0001

*For recorded information.

**Device for hearing impaired.

Free Services

Investors are not charged for the services provided by Treasury Direct. Also, at this time there is no limit on the number of Treasury Direct accounts an individual can have.

Growth of Treasury Direct

Treasury Direct has grown in popularity since it began to accept all Treasury

issues in 1986. By the end of 1986, 77,942 Treasury Direct accounts with a par value of \$731 million had been established; twelve months later, the totals had grown to 391,779 accounts with a par value of \$22.6 billion; as of December 31, 1991, the numbers were 1,094,915 accounts with a par value of \$64.4 billion. In 1991 alone, Treasury Direct servicing offices in Federal Reserve Banks and Branches handled approximately 600,000 new security

purchases, 1.8 million account-servicing transactions, and 1.6 million telephone, written, and walk-in inquiries and sent out more than 11.7 million notices and account statements to Treasury Direct account holders.

By offering convenience and a range of services, Treasury Direct has become an attractive alternative for investors who wish to hold their Treasury securities on the books of the Treasury Department.

Appendixes

Appendix A

Mission and Operational Areas of the Federal Reserve System

The Federal Reserve Banks and the Board of Governors have established four major operational areas to account for their activities: monetary and economic policy, services to the U.S. Treasury and other government agencies, services to financial institutions and the public, and supervision and regulation of financial institutions.¹ This appendix describes each of these areas in detail.

Monetary and Economic Policy

The Federal Reserve contributes to the attainment of the nation's economic and financial goals through actions to influence money and credit in the economy. The System has several tools to affect the availability and cost of the nation's money and credit: setting reserve requirements; setting the discount rate (which affects the cost of borrowing); and open market operations, the primary tool of monetary policy.

The seven-member Board of Governors sets reserve requirements and acts on requests from the Federal Reserve Banks to adjust the discount rate. The Federal Open Market Committee (FOMC) meets in Washington eight times a year, usually twice each business quarter, to set policies for System open

market operations; it comprises the Board, the president of the Federal Reserve Bank of New York, and, on a rotating basis, the presidents of four other Reserve Banks.

A vast amount of banking and financial data flows through the Reserve Banks to the Board, where it is compiled and made available to the public in weekly and monthly statistical releases on such topics as the monetary aggregates, interest rates, bank credit, and exchange rates. The research staffs at the Board and the Reserve Banks use this information, along with data collected by other public and private institutions, to assess the state of the economy and the relationships between the financial markets and economic activity. Staff members provide background for the Board and for each meeting of the FOMC by preparing detailed economic and financial analyses and projections for the domestic economy and international markets. In addition, they conduct longer-run economic studies of issues at the regional, national, and international levels.

Services to the U.S. Treasury and Other Government Agencies

The U.S. government uses the Federal Reserve as its bank. Through deposit accounts at the Federal Reserve Banks, the government issues its checks and payments and collects its receipts. The Reserve Banks also process wire transfers of funds and automated clearing-house payments and give the Treasury daily statements of account activity.

1. Services to the U.S. Treasury and other government agencies is an operational area unique to the Federal Reserve Banks. The fourth operational area for the Board of Governors, System policy direction and oversight, provides resources for the supervision of Board and Bank programs and is discussed in chapter 2.

Beyond these typical depository activities, the Federal Reserve Banks provide several unique services to the government. They monitor the tax receipts deposited in the 13,026 tax and loan accounts maintained by depository institutions designated to perform this function, they hold the collateral that those institutions pledge to support those and other government deposits, and they transfer funds to the Treasury's account at its request. The Reserve Banks assist the Treasury in its financing of the public debt by issuing, servicing, and redeeming all marketable Treasury securities as well as all U.S. savings and retirement plan bonds. In another unique fiscal service, the Reserve Banks redeem food coupons for the U.S. Department of Agriculture and destroy them.

Services to Financial Institutions and the Public

The Federal Reserve System plays a central role in the nation's payments mechanism, which consists of many independent systems designed to move funds among financial institutions across the country. The Federal Reserve distributes currency and coin, processes checks for collection, operates electronic funds transfer networks, and provides for transfers of securities and for coupon collection.

Ensuring that the supply of currency and coin meets the public's demand for cash is the responsibility of the Federal Reserve. The Reserve Banks obtain currency and coin from the Bureau of Engraving and Printing and from the Mint and distribute it to the public through depository institutions. The Banks use highly sophisticated equipment to count cash, identify counterfeits, and destroy currency that is unfit for

circulation. In 1991 the Reserve Banks paid out \$285.2 billion in currency and \$4.8 billion in coin and destroyed \$73.8 billion of unfit currency.

The Reserve Banks collect and clear checks under the specific authority of the Federal Reserve Act of 1913. The Banks, Branches, and regional check-processing centers currently clear approximately 18.5 billion checks each year with an average daily value of more than \$50 billion. Most checks deposited with the Federal Reserve by financial institutions are collected on the day they are deposited or on the next business day.

The Federal Reserve also plays a central role in the nation's payments mechanism through its wire transfer system, Fedwire. Depository institutions can draw on their reserves or clearing accounts at the Reserve Banks through Fedwire and transfer funds anywhere in the country. Approximately 6,969 depository institutions use Fedwire through direct computer connections with Federal Reserve Banks, and another 4,399 institutions use Fedwire through off-line means such as telephone. In 1991, approximately 64 million transfers valued at about \$191 trillion were sent over Fedwire, an average of \$3.0 million per transfer and \$761 billion per day.

The Federal Reserve allows participants in private clearing arrangements to exchange and settle transactions on a net basis through reserve or clearing-account balances. Users of net settlement services include local check clearinghouse associations, automated clearinghouse (ACH) networks, credit card processors, automated teller machine networks, and national and regional funds and securities transfer networks. In 1991, approximately 770,000 net settlement entries were processed by the Reserve Banks.

Approximately 29,000 depository institutions participate in the Federal Reserve's ACH service, which makes one-time and recurring payments electronically instead of by check. The depository institutions use the ACH service for credit transactions, primarily to pay salaries and pensions, and for debit transactions such as preauthorized bill payments and cash concentration debits. Of the approximately 11,100 ACH endpoints, 3,700 have electronic connections with the Federal Reserve; the others receive payment data via magnetic tapes or paper registers. In 1991 the Reserve Banks processed more than 1.6 billion ACH transactions valued at about \$6.7 trillion; 32 percent of the transactions were for the federal government, and the rest were commercial.

The securities services provided by the Reserve Banks cover the handling of book-entry securities and definitive securities and the collection of coupons and miscellaneous items. The book-entry service, begun in 1968, enables holders of government agency securities to transfer them electronically to other institutions throughout the country. The Reserve Banks maintained approximately 14,372 book-entry accounts in 1991 and processed approximately 11.2 million securities transfers.

In the definitive securities service, the Banks store physical securities ineligible for maintenance on the Federal Reserve's book-entry system. The Federal Reserve held about \$15.1 billion of such securities in priced accounts at the end of 1991.

In its noncash collection service, the Federal Reserve presents coupons, bonds, and miscellaneous items, such as bankers acceptances and certain checks and drafts, for collection. Coupon collection, which accounts for approximately 98 percent of the transactions in this

service, amounted to 2.9 million coupon envelopes in 1990 and about 2.2 million coupon envelopes in 1991.

Supervision and Regulation

Under the authority of the Federal Reserve Act and the Bank Holding Company Act, the Federal Reserve System plays a major role in the supervision and regulation of banks and bank holding companies. Under the Bank Holding Company Act, the Board is responsible for ensuring that all activities of bank holding companies are "closely related to banking and a proper incident thereto." The Board of Governors adopts regulations to carry out statutory directives and establishes System supervisory and regulatory policies; the Reserve Banks conduct on-site examinations and inspections of state member banks and bank holding companies, review applications for mergers, acquisitions, and changes in control from banks and bank holding companies, and take formal supervisory actions. The System makes available to the public nonidentifying information it periodically collects on the condition and income of banks and bank holding companies.

Beyond these activities, the Federal Reserve maintains continuous oversight of the banking industry to ensure the overall safety and soundness of the financial system. This broader responsibility is reflected in the System's presence in financial markets, through open market operations, and in the Federal Reserve's role as lender of last resort.

In 1991 the System maintained the intensified supervision program for state member banks and bank holding companies that was implemented five years ago as a result of the increase in the number of bank failures and problem banks. In 1991 the Board and the Reserve

Banks examined approximately 790 state member banks, inspected approximately 2,254 bank holding companies and their subsidiaries, and acted on a total of 3,083 international and domestic applications.

The Board enforces compliance by state member banks with the federal laws protecting consumers in their use of credit. In 1991 the System conducted approximately 591 compliance examinations.

The Board's supervisory responsibilities also extend to foreign operations of U.S. banks and, under the International Banking Act, to U.S. operations of foreign banks. ■

Appendix B

Budget Processes

As a group, the Reserve Banks follow a budgeting process distinct from that of the Board of Governors. This appendix surveys those processes and explains PACS, the planning and control system the Banks use for accounting.

The Budget and Control Process of the Board of Governors

The Board involves all levels of its management in a planning, budget, and control process based on the calendar year. Under authority delegated by the Chairman, the administrative governor oversees the process to ensure that all elements are coordinated, objectives are achieved, and duplication of effort is avoided.

The Board structures its budget in four operational areas: economic and monetary policy, supervision and regulation of financial institutions, services to financial institutions and the public, and System policy direction and oversight. Costs for data processing are distributed to the four major areas according to usage. Expenses for other elements of support and overhead are allocated to the four areas in proportion to the share of direct costs attributable to each area.

The Budget Schedule

In the spring, each division at the Board reviews its goals and resource requirements by obtaining guidance from oversight committees made up of Board members, by participating in System planning sessions, and by conducting division planning sessions. The manage-

ment of each division lists events likely to affect the division's budget and estimates budget changes associated with those events. Simultaneously, the Office of the Controller prepares a budget estimate based on the current level of operation, taking into account known or anticipated factors such as wage and benefit increases and changes in costs for goods and services. The controller uses this projection of expenses, with the estimates from the other divisions and guidance from the Board's oversight committees, to estimate a budget guideline. The Chairman and the administrative governor review the proposed guideline before it is submitted to the Board in June. Using the staff analyses, the Board approves a guideline in an open meeting, and the divisions use the guideline to develop their budgets.

During the summer, the divisions prepare their budgets. First the Board's controller and staff director for management and then the appropriate oversight committees review them. These reviews usually result in improved coordination, better consistency among division plans and objectives, and reduced expenses. The administrative governor then presents the consolidated budget proposal to the Chairman for his review and comments. In early December, at an open meeting, the budget is presented to the Board of Governors for action.

The Budget of the OIG

The Board's Office of Inspector General (OIG), in accordance with its statutory independence, prepares its proposed budget apart from the oversight and

guideline process just described and submits it directly to the Board without formal staff review. The Board may seek staff assistance in reviewing the budget of the OIG before reviewing and approving it at the same open meeting as the regular budget.¹

Treatment of Capital Expenditures

In 1985 the Board began capitalizing certain assets and depreciating their value over appropriate time periods instead of expensing them in their year of purchase. Capitalizing, which is in accordance with generally accepted accounting principles, more closely aligns the cost of capital assets with their periods of service and is consistent with the accounting practices followed by the Reserve Banks.

Assessments

After the Board adopts its budget, the cash requirement for the first half of the year is estimated. The administrative governor reviews and approves this estimate in early January, and, as the Federal Reserve Act provides, the required amount is raised by an assessment on each of the Reserve Banks in proportion to its capital stock and surplus. The cash requirement for the second half of the year is estimated in June, and the second assessment is made in July. To minimize cash balances held by the Board, funds are transferred quarterly.

Financial Monitoring and Control

All levels of Board management monitor and review Board expenses throughout

the budget year. To facilitate this process, each division constructs quarterly operating plans. Administrative management observes performance against these plans monthly and submits quarterly reports to the Board.

At midyear, the controller and the staff director for management review current expenses with each division director, estimate expenses for the entire year, and submit the estimate to the Board with any recommendations for reallocations. The midyear review helps control current expenses and provides a baseline for analyzing budget requests. At the beginning of the next year, the controller and the staff director for management report to the Board on the previous year's performance against budget and operating goals.

The Budget and Control Process of the Federal Reserve Banks

Each year the Federal Reserve Banks, like the Board, establish major operating goals for the calendar year, devise strategies for their attainment, estimate required resources, and monitor results of current operations and financial performance.

The Budget Process

A task force drawn from staff members of the Board and the Reserve Banks develops a proposed budget guideline for the coming year based on forecasts of changes in workload and productivity at the Reserve Banks. The Conference of First Vice Presidents and the Conference of Presidents of the Reserve Banks review the work of the task force and, if necessary, revise it before sending it to the Board of Governors. The Board determines the appropriateness of the proposed level of spending and at about midyear communicates the budget ob-

1. Operations of the OIG are also discussed in chapter 2 and appendix E.

jective to the Reserve Banks for their guidance in developing plans and budgets. To plan for priced services, the Banks update a multiyear strategic statement.

The management of each Bank department develops its budget on the basis of workloads, required initiatives, and the budget objective. Senior Bank officials review the departmental requests and, with the president and first vice president, determine priorities for the overall budget level to be recommended to the Bank's board of directors. In the fall, the Board of Governors approves the budget of each Reserve Bank as well as the fee schedule for priced services, which is developed simultaneously with the budget data.

The Capital Budget Process

The Reserve Banks account for capital expenditures in accordance with generally accepted accounting principles and, therefore, include depreciation of capital assets in expenses. Technical staff members at the Board review all plans for large capital expenditures, whether for buildings, automation equipment, furnishings, or land. The staff members then make recommendations to the director of the Division of Reserve Bank Operations and Payment Systems or to the Board of Governors, depending on the significance of the item or project.

Review at the Board of Governors

In the fall, analysts at the Board review the budget of each Reserve Bank and note Systemwide issues to be addressed during the budget review. They analyze the executive summary and the statement of objectives in each budget in light of the Bank's own trends, plans at the other Banks, the System budget objective, and

the cost-recovery objectives for priced services. The product directors and the Pricing Policy Committee examine the budgets for priced services.² A committee of three governors reviews the budget of each Reserve Bank and meets with the president and first vice president of each Bank to discuss issues and directions. Following review by the committee of three governors, all Bank budgets are sent to the Board of Governors for action at a public meeting in December.

Special Projects

Special projects are those few research and development efforts that have the potential to make a major improvement in the nation's payments mechanism or in the Federal Reserve's ability to provide services. Because of their long-range importance, special projects are approved separately from the process described above, which focuses on operational costs. Although not included in the budget objective, these projects are individually approved by the Conference of Presidents and the Board of Governors, and their effect on total system outlays is carefully reviewed. Three such projects, described in appendix C, have been approved for 1992.

2. The product directors are the first vice presidents at selected Reserve Banks with responsibility for day-to-day policy guidance over specific Systemwide priced services. The Pricing Policy Committee comprises one governor, the Board's staff director for Federal Reserve Bank activities, the presidents of two Reserve Banks, and the first vice presidents of two other Reserve Banks.

The Planning and Control System

The Planning and Control System (PACS), implemented by the Reserve Banks in 1977, is the fundamental cost accounting system for all the services provided by the Banks, whether priced or nonpriced, special or routine. Under PACS, budgets can be compared with actual expenses by service and object, and the Board of Governors can compare the financial and operating performances of the Reserve Banks.

PACS groups all costs by major services, listed on the facing page under the four operational areas and support and overhead. The costs of support and overhead, in turn, are fully allocated to the four operational areas. PACS offers a detailed analysis of all these services

and activities, including productivity statistics (primarily unit costs and items per employee-hour), "environmental" statistics (to clarify the differences among the Banks' operating environments), and "quality" statistics (to measure performance).

PACS affords the Banks a review of expenses, an audit trail, and expense accountability. Through periodic on-site reviews, the Board confirms that the Reserve Banks are complying with PACS instructions and also with System guidelines set by the Board. In addition, the General Accounting Office and an outside public accounting firm have determined in independent examinations that PACS is an appropriate and effective accounting mechanism for the Federal Reserve.

Federal Reserve Bank Services

OPERATIONAL AREAS

Monetary and economic policy
 Economic policy determination
 Open market trading

*Services to the U.S. Treasury
 and other government agencies*
 Savings bonds
 Consolidated operations—savings bonds
 Other Treasury issues
 Consolidated operations—other Treasury issues
 Centrally provided Treasury and agency services
 Government agency issues
 Other Treasury and government agency services
 Treasury and other government coupons
 Food coupons
 Government accounts

Services to financial institutions and the public
 Special cash service
 Currency
 Coin
 Transfer of account balances
 Automated clearinghouse
 Commercial check
 Other check
 Book-entry securities
 Definitive securities
 Loans to depository institutions and others
 Noncash collection
 Public programs
 Other

Supervision and regulation
 Supervision of District financial institutions
 Administration of laws and regulations
 related to banking
 Market structure and supervisory and regulatory
 policy studies

SUPPORT AND OVERHEAD

Support
 Data services
 Centrally provided support
 Occupancy service
 Printing and supplies
 Centralized planning
 District projects

Overhead
 Administration
 System projects and contingency processing center
 Special projects
 Mail
 Legal
 General books and budget and expense control
 Files and records storage
 Personnel
 Purchasing
 Protection
 Motor vehicles
 Library
 Telephone
 Audit

Appendix C

Special Categories of System Expense

This appendix discusses System expenses for priced services, capital assets, special projects, and currency printing.

Priced Services

The Monetary Control Act of 1980 (MCA) requires the Federal Reserve to make available to all depository institutions, for a fee, certain services that the Federal Reserve had previously provided without explicit charge and only to member banks. As the act requires, the cost of providing these services includes all direct and indirect costs, the interest on items credited before actual collection (float), and the private sector adjustment factor (PSAF). The PSAF is the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a private business firm.

To meet the requirement for the full recovery of costs, the Federal Reserve has developed an annual pricing process involving a review of Reserve Bank expenses in addition to the review required by the budget process. Use of the budgets is an integral part of the pricing exercise because most of the recoverable costs of priced services are direct and indirect costs as determined by the budgets. To assist depository institutions in their planning to provide or use correspondent banking services, the Federal Reserve usually sets each year's prices only once, in the fourth quarter of the preceding year.

Fees for Federal Reserve services must be approved by the product director for the respective service, by the Pricing

Policy Committee, and ultimately by the Board of Governors.¹ If fees for any service are set so that the full recovery of costs is not anticipated, the Board announces the rationale.

The cost of float is estimated by applying the current federal funds rate to the level of float expected to be generated in the coming year. Estimates of income taxes and the return on capital are based on tax and financing rates derived from a model of the fifty largest U.S. bank holding companies; these rates are applied to the assets the Federal Reserve expects to use in providing priced services in the coming year. The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital assets); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (FDIC) (based on expected clearing balances and amounts deferred to depository institutions for items deposited for collection with the Reserve Banks); and an estimate of the direct and indirect expenses of the Board of Governors that is related to the development of priced services.

The inclusion of all these costs means the Federal Reserve offers its priced services on a basis comparable with that in the private sector, and the discipline of the market ensures that the prices charged will be no higher than necessary.

1. See appendix B, note 2, for a description of the position of product director and of the Pricing Policy Committee.

Calculation of the PSAF for 1992

In 1991 the Board approved a 1992 private sector adjustment factor of \$79.9 million, a decrease of \$5.9 million, or 6.8 percent, from the PSAF of \$85.8 targeted for 1991.

Asset Base

The estimated value of Federal Reserve assets to be used in providing priced

services in 1992 is \$6,531.8 million (table C.1). The value of assets assumed to be financed through debt and equity in 1992 is \$563.6 million, an increase of \$32.9 million, or 6.2 percent, over 1991 (table C.2). This increase results largely from capital expenditures for bank premises planned by the Reserve Banks next year and from an increase in long-term prepayments of equipment maintenance costs.

Table C.1**Pro Forma Balance Sheet for Federal Reserve Priced Services, 1991-92¹**

Millions of dollars

Asset or liability	1991	1992
ASSETS		
<i>Short-term assets</i>		
Imputed reserve requirement on clearing balances	244.1	372.0
Investment in marketable securities	1,790.4	2,728.0
Receivables ²	32.8	32.7
Materials and supplies ²	8.2	5.6
Prepaid expenses ²	13.7	11.2
Items in process of collection ³	<u>3,637.5</u>	<u>2,868.1</u>
Total short-term assets	5,726.7	6,017.6
<i>Long-term assets</i>		
Premises ^{2,3}	305.3	341.0
Furniture and equipment ²	146.8	139.2
Leasehold improvements and long-term prepayments ²	23.9	33.9
Capital leases	<u>.3</u>	<u>.1</u>
Total long-term assets	476.3	514.2
Total assets	6,203.0	6,531.8
LIABILITIES		
<i>Short-term liabilities</i>		
Clearing balances and balances arising		
from early credit of uncollected items	2,466.7	3,511.4
Deferred-credit items	3,205.3	2,456.7
Short-term debt ⁴	<u>54.7</u>	<u>49.5</u>
Total short-term liabilities	5,726.7	6,017.6
<i>Long-term liabilities</i>		
Obligations under capital leases .....	.3	.1
Long-term debt ⁴	<u>154.8</u>	<u>170.4</u>
Total long-term liabilities	155.1	170.5
Total liabilities	5,881.8	6,188.1
Equity ⁴	<u>321.2</u>	<u>343.7</u>
Total liabilities and equity	6,203.0	6,531.8

1. Data are averages for the year.

2. Financed through the PSAF; other assets are self-financing.

3. Includes allocations of Board of Governors' assets

to priced services of \$0.5 million for 1991 and \$0.3 million for 1992.

4. Imputed figures representing the source of financing for certain priced-service assets.

Cost of Capital and Taxes and Other Imputed Costs

For 1992, a pretax rate of return on equity of 10.7 percent is planned. Other required PSAF recoveries for 1992—imputed sales taxes, imputed FDIC insurance assessment, and Board expenses—total \$23.5 million, up from

\$19.9 million approved for 1991 (table C.2). The decrease in the PSAF of \$5.9 million is due primarily to a decrease in the pretax return on equity rate from 14.5 percent in 1991 to 10.7 percent in 1992 attributable to the weaker 1990 financial performance of bank holding companies included in the model relative

Table C.2

Derivation of the Private Sector Adjustment Factor (PSAF), 1991–92

Millions of dollars, except as noted

Item	1991	1992
PSAF COMPONENTS		
<i>Assets to be financed</i> ¹		
Short-term	54.7	49.5
Long-term ²	476.0	514.1
Total	530.7	563.6
<i>Cost of capital (percent)</i> ³		
Short-term debt	8.6	7.9
Long-term debt	9.4	9.2
Pretax return on equity ⁴	14.5	10.7
Weighted average	12.9	10.2
<i>Capital structure (percent)</i>		
Short-term debt	10.3	8.8
Long-term debt	29.2	30.2
Equity	60.5	61.0
Total	100.0	100.0
Tax rate (percent) ⁴	30.5	29.4
REQUIRED PSAF RECOVERIES		
<i>Capital costs</i> ⁵		
Short-term debt	4.7	3.9
Long-term debt	14.5	15.7
Equity	46.7	36.8
Total	65.9	56.4
<i>Other costs</i>		
Sales taxes	8.7	10.2
Assessment for federal deposit insurance	9.2	11.4
Expenses of Board of Governors	2.0	1.9
Total	19.9	23.5
Total PSAF recoveries		
Millions of dollars	85.8	79.9
As a percent of capital	16.2	14.2
As a percent of expenses	14.7	13.2

1. The asset base for priced services is directly determined.

2. Total long-term assets less capital leases that are self-financing.

3. All short-term assets are assumed to be financed by short-term debt. Of the total long-term assets, 33 percent are assumed to be financed by long-term debt and 67 percent by equity. The data are average rates paid by the bank holding companies included in the sample.

4. The pretax rate of return on equity is based on average after-tax rates of return on equity, adjusted by the effective tax rate to yield the pretax rate of return on equity for each bank holding company for each year. These data are then averaged over the five years 1986–90 to yield the pretax return on equity for use in the PSAF.

5. The calculations underlying these data use the dollar value of assets to be financed, divided as described in note 3, and the rates for the cost of capital.

to the 1985 performance included in the 1991 calculation. The decrease is partially offset by an increase in the asset base and by a rise in the imputed FDIC insurance assessment of \$2.2 million resulting from an increase in clearing balances maintained as well as an increase in the FDIC assessment rate.

Capital Outlays

In accordance with generally accepted accounting principles (GAAP), the Federal Reserve System depreciates the cost of fixed assets over their estimated useful lives. In the federal government, where no requirement for depreciation accounting exists, the cost of fixed assets is typically recorded as an expense at the time of purchase. However, the *Policy and Procedures Manual for Guidance of Federal Agencies* of the General Accounting Office, which governs accounting procedures in the federal government, specifies in title 2 the use of depreciation accounting for business types of operations and for activities that recover costs from reimbursements or user charges. Certain activities of the Federal Reserve meet both these criteria. Under GAAP, the cost of acquiring an asset that is expected to benefit an entity over future periods should be allocated over those periods. Such treatment allows a more realistic measurement of operating performance.

The Banks capitalize and depreciate all assets that cost \$1,500 or more; they can either capitalize or expense assets costing less. The capitalization guideline for the Board is \$1,000.

The Banks maintain a multiyear plan for capital spending. The Board, in turn, requires the Banks to budget annually for capital outlays by capital class to estimate the effect of total operating and capital spending. During the budget year, the Banks must submit proposed major

purchases of assets to the Board for further review and approval. The Board of Governors reviews capital expenditures for the Board.

Special Projects

For 1992 the Board of Governors has approved research and development for three projects intended to provide long-range benefits to the Federal Reserve and the banking industry. Because the spending on such projects is relatively high and short-term, the Federal Reserve accounts for it separately from its operating expenses.

Check Image Processing

In 1988, the Conference of First Vice Presidents of the Reserve Banks approved the concept of testing digital technologies to record images for use in processing checks. The application that provided the strictest parameters was archiving information on government check payments for the Department of the Treasury. This application involves storage of a large amount of data and retrieval of high-quality data, requirements similar to those for processing return items. Consequently, it was decided to explore both applications to determine the feasibility of the technology.

The Check Image Processing special project will continue to build on the first four years of results. The focus during 1992 will be on developmental work in preparation for sustained tests of high-speed image-capture systems for the government check application, continued developmental work on low-speed personal computer-based systems for the return item application, and leadership of efforts to develop industry standards for interchange of check images between Banks (using different systems). The

1992 budget for these efforts is \$4.3 million. Including 1992 expenses, System expenditures on Check Image Processing to date total \$13.6 million.

Development of Currency Authentication Systems

In 1989, the Federal Reserve initiated a special project for development of an Optical Counterfeit Detection System (OCDS). Later that year the project was renamed Development of Currency Authentication Systems because research efforts included development not only of an OCDS, but also of other authentication alternatives.

OCDS is an effort to improve counterfeit-detection capabilities that will enhance the currency service provided to financial institutions and the public. Other activities include development of both long- and short-term authentication alternatives that are expected to improve the Federal Reserve's ability to detect counterfeit currency. All these efforts should produce counterfeit detector devices to be placed on the Federal Reserve's high-speed currency-processing equipment.

The 1992 project budget includes \$9.3 million in support of these efforts. Including 1992 expenses, expenditures on this special project to date total \$15.8 million.

Automation Consolidation

In 1992, the Federal Reserve System will incur its first expenditures for the Automation Consolidation special project. The project will result in consolidation of all mainframe computer operations at three sites within the System. The three sites, selected in late 1991, are Richmond, Dallas, and New York. The 1992 project budget of \$6.5 million covers staffing of the project

team and development of a detailed plan for achieving a consolidated automation environment within the Federal Reserve System.

Currency Printing

The Bureau of Engraving and Printing produces currency; the Federal Reserve Banks put it into circulation through depository institutions and destroy it as it wears out. The Federal Reserve Act stipulates that the costs of producing currency, as well as the costs of putting it into circulation and destroying it, are to be assumed by the Federal Reserve System (table C.3).

New currency is printed to replace worn notes and to accommodate increases in the demand for circulating currency (table C.4). Notes are also required for inventories held by the Reserve Banks to meet changes in demand.

To minimize the number of new notes ordered and the cost of their printing, the Board consults with the Bureau of Engraving and Printing to ensure that it uses efficient methods, maintains System

Table C.3

Currency in Circulation, New Notes Issued, and Notes Destroyed, 1991 Estimate

Millions of pieces

Dollar denomination	Notes in circulation ¹	New notes paid out ²	Notes destroyed ²
1	4,928	3,209	2,818
2	432	18	3
5	1,194	779	751
10	1,184	733	695
20	3,301	1,682	1,431
50	677	175	140
100	1,506	417	223
Total	13,222	7,013	6,061

1. As of September 1991.

2. Based on actual levels through October and expected levels for November and December. Notes paid out do not include additions to inventory at the Reserve Banks.

guidelines on the quality of notes, and sees that Reserve Banks do not destroy notes prematurely. The Board and the

Banks also monitor all related costs, such as those for transportation and packaging.

Table C.4

Costs to the Federal Reserve of New Currency, 1990-92

Millions of dollars, except as noted

Item	1990 actual	1991 estimated	1992 budget	Percent change, 1991-92
Printing ¹	185.7	253.3	317.0	25.1
Shipping from Washington and western facility	5.3	5.2	6.8	30.8
Reimbursement to the Treasury for issuance and retirement ²	1.9	1.7	2.0	17.6
Total cost of currency	192.9	260.2	325.8	25.2

1. Based on 7 billion notes in 1990, 8 billion notes in 1991, and 9 billion notes in 1992.

2. Includes intrasystem shipment of fit currency, purchase of currency pallets, and shipment of currency pallets to the Bureau of Engraving and Printing.

Appendix D

Sources and Uses of Funds

The Federal Reserve System, in accordance with generally accepted accounting principles, accrues income and expenses and capitalizes acquisitions of assets whose useful lives extend over several years (see appendix C).

The System derives its income primarily from U.S. government securities that the Federal Reserve has acquired through open market operations, one of the tools of monetary policy. These earnings account for approximately 85 percent of current income (table D.1).

The current expenses of the Reserve Banks consist of their operating expenses and the costs of the earnings credits

granted to depository institutions on clearing balances held with the Reserve Banks (table D.2). The Reserve Banks record extraordinary adjustments to current net income in a profit and loss account. The primary entries in the account are for gains or losses on the sale of U.S. government securities and for gains or losses on assets denominated in foreign currencies that result either from the sale of those assets or from their revaluation at market exchange rates.

The Reserve Banks retain a surplus to cushion unexpected losses, much as commercial establishments retain earnings. The Board of Governors requires that the surplus account at year-end be equal to the capital paid in by the member banks. Since the end of 1964, the Board's policy has been to transfer to the U.S. Treasury all net income after paying the statutory dividend to member banks and the amount necessary to equate surplus to paid-in capital. The amount transferred is classified as interest on Federal Reserve notes. Such payments were \$23.6 billion in 1990 and are estimated to be \$20.8 billion in 1991.

Table D.1

Income of the Federal Reserve System,
1990-91

Millions of dollars

Source	1990 actual	1991 estimate
Loans.....	117.9	25.6
U.S. government securities....	19,994.5	19,262.3
Foreign currencies.....	2,603.9	2,498.9
Priced services.....	730.2	737.3
Other.....	30.1	27.2
Total.....	23,476.6	22,551.3

Table D.2

Distribution of the Income of the Federal Reserve System, 1990-91

Millions of dollars

Item	1990 actual	1991 estimate
Current income ¹	23,477	22,551
LESS		
<i>Current expenses of Reserve Banks</i> ²		
Operating expenses	1,211	1,268
Costs of earnings credits	139	160
EQUALS		
Current net income	22,127	21,124
PLUS		
Net additions to, or deductions from (-), current net income ³	2,201	496
LESS		
Cost of unreimbursed Treasury services ⁴	102	91
<i>Assessments by Board</i>		
Board expenses	104	110
Cost of currency	193	261
<i>Other distributions</i>		
Dividends paid to member banks ⁵	141	153
Transfers to, or from (-), surplus ⁶	180	228
EQUALS		
Payment to U.S. Treasury	23,608	20,778

1. See table D.1.

2. Net of reimbursements due from the U.S. Treasury and other government agencies. Also reflects reductions of \$60.5 million in 1990 and \$83.1 million in 1991 in credits for net periodic pension cost.

3. This account is the same as that reported under the same name in the table "Income and Expenses of Federal Reserve Banks" in the Statistical Tables section of the Board's *Annual Report* and includes realized and unrealized gains on assets denominated in foreign currencies; gains on sales of U.S. government securities; and miscellaneous gains and losses.

4. The cost of services provided to the U.S. Treasury that are reimbursable under agreements with the Treasury and for which reimbursement is not anticipated.

5. The Federal Reserve Act requires the Federal Reserve to pay dividends to member banks at the rate of 6 percent of paid-in capital.

6. Each year the Federal Reserve transfers to its surplus account an amount sufficient to equate surplus to paid-in capital to provide a reserve against losses.

Appendix E

Federal Reserve System Audits

The Board of Governors, each of the Reserve Banks taken separately, and the Federal Reserve System as a whole are all subject to several levels of audit and review. At each Federal Reserve Bank, a full-time staff of auditors under the direction of a general auditor reports directly to the Bank's board of directors. The Board's Division of Federal Reserve Bank Operations, acting on behalf of the Board of Governors, regularly audits the financial operations of each of the Banks and periodically reviews all other Bank operations. The Office of Inspector General (OIG) conducts audits, operations reviews, and investigations of the programs and operations of the Board and those Board functions delegated to the Federal Reserve Banks. The OIG retains an independent auditor each year to certify the fairness of the Board's financial statements and its

compliance with laws and regulations affecting those financial statements.

General Accounting Office

The 1978 passage of the Federal Banking Agency Audit Act (Public Law 95-320) brought most of the operations of the Federal Reserve System under the purview of the General Accounting Office (GAO). The GAO, which currently has 25 projects in various stages of completion, since 1979 has completed 93 reports on selected aspects of Federal Reserve operations (tables E.1 and E.2). The GAO has also involved the Federal Reserve in about 68 other reviews not directly related to the System and has terminated 39 others before completion. The reports are available directly from the GAO.

Table E.1

Active GAO Projects Relating to the Federal Reserve

Subject	Date initiated
Fraud backlog cases	11/8/89
Anticompetitive service contracts	2/21/90
Capital adequacy standards for securities brokers-dealers	3/14/90
Foreign affiliates of U.S. brokers-dealers	3/14/90
Federal tax deposit system	4/9/90
Collecting and disseminating thrift and bank call report data	9/4/90
Criminal cases from financial-institution fraud	11/2/90
Debt crisis in less-developed countries	1/25/91
Comparability of compensation and benefits of federal regulatory agencies	2/7/91
Information on securities and futures activities exchanged between countries	2/21/91
Supervision and examination processes	3/18/91
Use of automation in clearance and settlement process	4/4/91
Foreign business structures that impede competition	4/22/91
Financing of multifamily housing	4/19/91
Future banking-industry consolidation	5/31/91
Banking supervision and regulation in Canada	6/11/91
Personnel management evaluation program	7/25/91
Activities of Credit and Commerce American Holdings	8/6/91
Bank-failure resolutions	8/19/91
Preparation and dissemination of the <i>Federal Register</i>	9/9/91
Joint Lending Program	9/20/91
Off-balance-sheet activities	10/7/91
Regulator oversight of bank automation systems	10/9/91
Export-credit abuse	10/23/91
Insider activity at banks	10/24/91

Table E.2

Completed GAO Reports Relating to the Federal Reserve System

Report	Number	Date
Comparing Policies and Procedures of the Three Bank Regulatory Agencies	GGD-79-27	3/29/79
Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy? ..	EMD-79-45	6/11/79
Federal Systems Not Designed to Collect Data on All Foreign Investments in U.S. Depository Institutions	GGD-79-42	6/19/79
Considerable Increase in Foreign Banking in United States since 1972 ..	GGD-79-75	8/1/79
Investment Policies, Practices and Performance of Federal Retirement Systems	FPCD-79-17	8/31/79
Federal Supervision of Bank Holding Companies Needs Better, More Formalized Supervision	GGD-80-20	2/12/80
The Federal Reserve Should Assure Compliance with the 1970 Bank Holding Company Act Amendments	GGD-80-21	3/12/80
Federal Agencies' Initial Problems with the Right to Financial Privacy Act of 1978	GGD-80-64	5/29/80
Internal Auditing Can Be Strengthened in the Federal Reserve System ..	GGD-80-59	8/8/80
Despite Positive Effects, Further Foreign Acquisitions of U.S. Banks Should Be Limited until Policy Conflicts Are Fully Addressed	GGD-80-66	8/26/80
Federal Examinations of Financial Institutions: Issues That Need to Be Resolved	GGD-81-12	1/6/81
Examinations of Financial Institutions Do Not Assure Compliance with Consumer Credit Laws	GGD-81-13	1/21/81
Disappointing Progress in Improving Systems for Resolving Billions in Audit Findings	AFMD-81-27	1/23/81
An Economic Overview of Bank Solvency Regulation	PAD-81-25	2/13/81
Federal Reserve Security over Currency Transportation Is Adequate	GGD-81-27	2/23/81
The Federal Structure for Examining Financial Institutions Can Be Improved	GGD-81-21	4/24/81
Response to Questions Bearing on the Feasibility of Closing the Federal Reserve Banks	GGD-81-49	5/21/81
Bank Secrecy Act Reporting Requirements Have Not Met Expectations, Suggesting Need for Amendment	GGD-81-80	7/23/81
Federal Reserve Could Improve the Efficiency of Bank Holding Company Inspections	GGD-81-79	8/18/81
Financial Institution Regulatory Agencies Should Perform Internal Audit Reviews of their Examination and Supervision Activities	GGD-82-5	10/19/81
Information on Selected Aspects of Federal Reserve System Expenditures ..	GGD-82-33	2/12/82
Federal Review of Intrastate Branching Can Be Reduced	GGD-82-31	2/24/82
Despite Improvements, Recent Bank Supervision Could Be More Effective and Less Burdensome	GGD-82-21	2/26/82
Issues to Be Considered while Debating Interstate Bank Branching	GGD-82-36	4/9/82
The Federal Reserve Should Move Faster to Eliminate Subsidy of Check-Clearing Operations	GGD-82-22	5/7/82
Information about Depository Institutions' Ancillary Activities Is Not Adequate for Policy Purposes	GGD-82-57	6/1/82
Bank Merger Process Should Be Modernized and Simplified	GGD-82-53	8/16/82
An Analysis of Fiscal and Monetary Policies	PAD-82-45	8/31/82
Bank Examination for Country Risk and International Lending	ID-82-52	9/2/82
Credit Insurance Disclosure Provisions of the Truth-in-Lending Act Consistently Enforced Except When Decisions Appealed	GGD-83-3	10/25/82
Survey of Investor Protection and the Regulation of Financial Intermediaries	GGD-83-30	7/13/83
Financial Institutions Regulatory Agencies Can Make Better Use of Consumer Complaint Information	GGD-83-13	8/25/83
Expediting Tax Deposits Can Increase the Government's Interest Earnings	GGD-84-14	11/21/83
Unauthorized Disclosure of the Federal Reserve's Monetary Policy Decision	GGD-84-40	2/3/84
Federal Financial Institutions Examination Council Has Made Limited Progress toward Accomplishing Its Mission	GGD-84-4	2/3/84
Control Improvements Needed in Accounting for Treasury Securities at the Federal Reserve Bank of New York	AFMD-84-10	5/2/84
Statutory Requirements for Examining International Banking Institutions Need Attention	GGD-84-39	7/11/84

Table E.2
Continued

Report	Number	Date
Supervisory Examinations of International Banking Facilities Need to Be Improved	GGD-84-65	9/30/84
An Examination of Concerns Expressed about the Federal Reserve's Pricing of Check-Clearing Activities	GGD-85-9A	1/14/85
Difficulties in Evaluating the Effectiveness of the Community Reinvestment Act	OCE-86-1	11/4/85
International Coordination of Bank Supervision: The Record to Date ...	NSIAD-86-40	2/6/86
Implementation of the Export Trading Company Act of 1982	NSIAD-86-42	2/27/86
Information on Independent Public Accountant Audits of Financial Institutions	GGD-84-44FS	4/21/86
An Analysis of Two Types of Pooled Investment Funds	GGD-86-63	5/12/86
How the Markets Are Developed and How They Are Regulated	GGD-86-26	5/15/86
U.S. Banking Supervision and International Supervisory Principles	NSIAD-86-93	7/25/86
Financial Institution Regulators' Compliance Examination	GGD-86-94	8/1/86
The Market's Structure, Risks, and Regulation	GGD-86-80BR	8/20/86
Dealer Views on Market Operations and Federal Reserve Securities Transfer System	GGD-86-147FS	9/29/86
Questions about the Federal Reserve's Securities Transfer System	GGD-87-15BR	10/20/86
Federal Reserve Board Opposition to Credit Card Interest Rate Limits ..	GGD-87-38BR	4/7/87
Insulating Banks from the Potential Risk of Expanded Activities	GGD-87-35	4/14/87
The Federal Reserve Response Regarding Its Market-Making Standard ..	GGD-87-55FS	4/21/87
Change in Fees and Deposit Account Interest Rates since Deregulation ..	GGD-87-70	7/13/87
An Examination of Views Expressed about Access to Brokers' Services ..	GGD-88-8	12/18/87
Issues Related to Repeal of the Glass-Steagall Act	GGD-88-37	1/22/88
Preliminary Observations on the October 1987 Crash	GGD-88-38	1/26/88
Supervision of Overseas Lending Is Inadequate	NSIAD-88-87	5/5/88
Competitive Concerns of Foreign Financial Firms in Japan, the United Kingdom and the United States	NSIAD-88-171	6/2/88
Administrative Expenses at FHLBB and FRB for 1985 and 1986	AFMD-88-33	6/15/88
Government in the Sunshine Act Compliance at Selected Agencies	GGD-88-97	7/20/88
Trends in Commercial Bank Performance, December 1976-June 1987 ..	GGD-88-106BR	7/28/88
U.S. Commercial Banks' Securities Activities in London	NSIAD-88-238	9/8/88
Lending to Troubled Sectors	GGD-88-126BR	9/26/88
Government Check-Cashing Issues	GGD-89-12	10/7/88
Conflict of Interest: Abuses in Commercial Banking Institutions	GGD-89-35	1/27/89
Competitive Fairness Is an Elusive Goal	GGD-89-61	5/12/89
Independent Audits Needed to Strengthen Internal Control and Bank Management	AFMD-89-25	5/31/89
Information on the System's Check Collection Service	GGD-90-17	12/15/89
Oversight of Critical Banking Systems Should Be Strengthened	IMTEC-90-14	1/14/90
Activities of Securities of Bank Holding Companies	GGD-90-48	3/14/90
The Stock, Options, and Futures Markets Are Still at Risk	GGD-90-33	4/11/90
Update on U.S. Commercial Banks' Securities in London	NSIAD-90-98	5/7/90
U.S. Financial Services' Competitiveness under the Single Market Program	NSIAD-90-99	5/21/90
Limited Public Demand for New Dollar Coin or Elimination of Pennies ..	GGD-90-88	5/23/90
Oversight of Automation Used to Clear and Settle Trades Is Uneven ...	IMTEC-90-47	7/12/90
The Government's Exposure to Risks	GGD-90-97	8/15/90
Office of Inspector General Operations at Financial Regulatory Agencies ..	AFMD-90-55FS	8/24/90
Additional Reserves and Reform Needed to Strengthen the Fund	AFMD-90-100	9/11/90
More Transaction Information and Investor Protection Measures Are Needed	GGD-90-114	9/14/90
Issues Relating to Banks Selling Insurance	GGD-90-113	9/25/90
Implementation of Risk-Based Capital Adequacy Standards	NSIAD-91-80	1/25/91
Overview of Six Foreign Systems	NSIAD-91-104	2/22/91
Deposit Insurance: A Strategy for Reform	GGD-92-26	3/4/91
Bank Supervision: Prompt and Forceful Regulatory Actions Needed	GGD-91-69	4/15/91

Table E.2
Continued

Report	Number	Date
Many Federal Agencies Collect and Disseminate Information	NSIAD-91-173	5/1/91
Money Laundering: The U.S. Government Is Responding to the Problem ..	NSIAD-91-130	5/16/91
A Framework for Limiting the Government's Exposure to Risks	GGD-91-90	5/22/91
Treasury Tax and Loan Activity at Two Troubled Banks	AFMD-91-87	9/12/91
OCC's Supervision of the Bank of New England Was Not Timely or Forceful	GGD-91-128	9/16/91
Bank Holding Company Securities Subsidiaries' Market Activities Update	GGD-91-131	9/20/91
Time Limits on Holding Deposits Generally Met but More Oversight Needed	GGD-91-132	9/30/91
Legislation Needed to Strengthen Bank Oversight	AFMD-92-19	10/21/91

Office of Inspector General

The Board's Office of Inspector General functions in accordance with the Inspector General Act of 1978, as amended. The OIG provides policy direction for audits, operations reviews, and investigations of the programs and operations of the Board and its delegated functions at the Federal Reserve Banks, and plans and conducts them. The OIG also reviews existing and proposed legislation and regulations for economy and efficiency. It recommends policies and supervises and conducts activities that promote economy and efficiency and that prevent and detect waste, fraud, and abuse in Board and Board-delegated programs and operations. In addition, it coordinates its efforts with other governmental and nongovernmental agencies to promote economy and efficiency and to detect and prevent fraud and abuse in activities administered or financed by the Board. The OIG keeps the Congress and the Chairman of the Board fully informed about serious abuses and deficiencies and about the status of any corrective actions.

During 1991, the OIG reported on eight audits and three operations reviews, closed out thirteen investigations, and conducted 1,283 legislative and regulatory reviews. Audit reports issued

during 1991 addressed the Board's National Information Center development project; its portable personal computer equipment loaner programs; its revised compensation programs for officers and for wage and printer grade staff; the fairness of the financial statements of the Board and the Federal Financial Institutions Examination Council, and each agency's compliance with applicable laws and regulations; the Board portion of the System's thrift plan financial audit statement; and the Board portion of a specific health benefit plan audit being conducted across a number of agencies by the Office of Personnel Management. Operations review reports were issued on the Divisions of Monetary Affairs, Research and Statistics, and International Finance. An audit survey of the Federal Reserve's commercial disk examination program also was conducted.

Appendix F

Expenses and Employment at the Federal Reserve Banks

Table F.1

Operating Expenses of the Federal Reserve Banks, by District, 1991–92¹

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	88,049	92,730	4,682	5.3
New York	297,157	324,552	27,394	9.2
Philadelphia	82,387	88,390	6,003	7.3
Cleveland	87,847	91,022	3,175	3.6
Richmond	117,136	123,212	6,077	5.2
Atlanta	142,623	151,952	9,329	6.5
Chicago	170,565	181,205	10,640	6.2
St. Louis	68,970	72,177	3,207	4.7
Minneapolis	73,445 ²	74,049	604	.8
Kansas City	97,698	101,070	3,372	3.5
Dallas	98,685	111,420	12,735	12.9
San Francisco	177,021	184,626	7,605	4.3
Total, all Districts	1,501,582	1,596,405	94,823	6.3
Special projects	6,840	20,076	13,236	...
Total	1,508,422	1,616,481	108,059	7.2

1. Excludes capital outlays.

2. Includes \$2.9 million for water damage to the computer site. Without these expenses in 1991, Minneapolis' 1992 budget increase would have been 5.0 percent.

Table F.2

Employment at the Federal Reserve Banks, by District, 1991–92

Average number of personnel, except as noted¹

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	1,481	1,476	-5	-.3
New York	4,122	4,177	55	1.3
Philadelphia	1,384	1,402	19	1.4
Cleveland	1,470	1,438	-32	-2.2
Richmond	2,083	2,075	-7	-.3
Atlanta	2,378	2,433	55	2.3
Chicago	2,611	2,643	32	1.2
St. Louis	1,210	1,200	-10	-.8
Minneapolis	1,114	1,117	2	.2
Kansas City	1,683	1,626	-57	-3.4
Dallas	1,703	1,718	15	.9
San Francisco	2,592	2,565	-27	-1.0
Total, all Districts	23,831	23,871	40	.2
Special projects	2	102	100	...
Total	23,833	23,973	140	.6

1. See chapter 3, note 1, for definition of average number of personnel (ANP).

Table F.3**Expenses of the Federal Reserve Banks, by Operational Area, 1991-92**

Thousands of dollars, except as noted

Operational area	1991 estimate	1992 budget	Change	
			Amount	Percent
Monetary and economic policy	107,530	113,021	5,491	5.1
Services to the U.S. Treasury and other government agencies	169,355	180,060	10,705	6.3
Services to financial institutions and the public	985,340	1,042,078	56,739	5.8
Supervision and regulation	239,356	261,246	21,889	9.1
Total	1,501,581	1,596,405	94,824	6.3
MEMO ¹				
Support	476,876	515,270	38,394	8.1
Overhead	408,953	438,429	29,476	7.2

1. Costs of support and overhead included in expenses by operational area. Support refers to activities, such as data processing, whose costs can be charged to users

according to the amount of use. Overhead refers to activities, such as auditing, whose costs are charged according to the users' shares of total direct costs.

Table F.4**Expenses of the Federal Reserve Banks****for Monetary and Economic Policy, by District, 1991-92**

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	5,330	5,623	292	5.5
New York ¹	42,791	45,240	2,449	5.7
Philadelphia	4,103	4,315	212	5.2
Cleveland	4,979	5,214	235	4.7
Richmond	4,944	5,112	168	3.4
Atlanta	6,194	6,574	380	6.1
Chicago	7,482	7,909	427	5.7
St. Louis	5,560	6,004	444	8.0
Minneapolis	6,104	5,581	-523	-8.6
Kansas City	4,936	5,257	321	6.5
Dallas	6,465	7,132	666	10.3
San Francisco	8,640	9,059	418	4.8
Total	107,530	113,021	5,491	5.1

1. Expenses of open market trading operations, located in the District, are \$21.3 million for 1991 and \$22.5 million for 1992.

Table F.5

Expenses of the Federal Reserve Banks

for Services to the U.S. Treasury and Other Government Agencies, by District, 1991-92

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	8,617	9,354	736	8.5
New York	36,175	38,678	2,503	6.9
Philadelphia	18,331	19,936	1,605	8.8
Cleveland	13,371	13,363	-8	-.1
Richmond	10,439	10,985	546	5.2
Atlanta	13,885	15,215	1,330	9.6
Chicago	18,552	20,116	1,564	8.4
St. Louis	8,708	8,858	150	1.7
Minneapolis	6,466	6,912	446	6.9
Kansas City	10,925	11,309	384	3.5
Dallas	8,891	10,574	1,593	17.7
San Francisco	14,906	14,760	-146	-1.0
Total	169,355	180,060	10,705	6.3

Table F.6

Expenses of the Federal Reserve Banks

for Services to Financial Institutions and the Public, by District, 1991-92

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	62,355	65,019	2,664	4.3
New York	162,466	180,155	17,689	10.9
Philadelphia	47,993	50,818	2,825	5.9
Cleveland	58,109	60,192	2,082	3.6
Richmond	87,858	91,652	3,794	4.3
Atlanta	104,121	109,741	5,619	5.4
Chicago	113,183	119,033	5,850	5.2
St. Louis	45,080	46,711	1,631	3.6
Minneapolis	48,615	48,404	-211	-.4
Kansas City	61,688	63,290	1,602	2.6
Dallas	64,815	72,361	7,545	11.6
San Francisco	129,058	134,704	5,647	4.4
Total	985,340	1,042,078	56,739	5.8

*Table F.7***Expenses of the Federal Reserve Banks
for Supervision and Regulation, by District, 1991-92**

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	11,746	12,735	989	8.4
New York	55,726	60,478	4,753	8.5
Philadelphia	11,960	13,321	1,362	11.4
Cleveland	11,388	12,253	865	7.6
Richmond	13,895	15,463	1,568	11.3
Atlanta	18,424	20,423	2,000	10.9
Chicago	31,347	34,146	2,799	8.9
St. Louis	9,622	10,604	982	10.2
Minneapolis	12,260	13,152	891	7.3
Kansas City	20,149	21,214	1,065	5.3
Dallas	18,423	21,353	2,930	15.9
San Francisco	24,417	26,103	1,686	6.9
Total	239,356	261,246	21,889	9.1

*Table F.8***Expenses of the Federal Reserve Banks
for Salaries of Officers and Employees, by District, 1991-92**

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston	50,749	53,566	2,817	5.6
New York	155,516	168,056	12,539	8.1
Philadelphia	42,755	45,433	2,678	6.3
Cleveland	43,654	45,284	1,631	3.7
Richmond	60,379	63,967	3,587	5.9
Atlanta	69,941	75,252	5,312	7.6
Chicago	84,852	90,361	5,509	6.5
St. Louis	35,000	36,889	1,888	5.4
Minneapolis	34,909	37,209	2,300	6.6
Kansas City	51,896	53,387	1,491	2.9
Dallas	52,766	55,762	2,996	5.7
San Francisco	91,837	95,707	3,870	4.2
Total	774,254	820,871	46,618	6.0

Table F.9

Factors in the 1991-92 Change in Salaries
of Officers and Employees of the Federal Reserve Banks, by District

Percentage points

District	Merit adjust- ment	Structure adjust- ment	Promotion and reclassi- fication	Change in staffing	Turnover and lag ¹	Overtime	Other	Total change
Boston.....	4.2	.0	1.3	.0	.0	-.1	.2	5.6
New York.....	5.0	.3	1.3	2.0	-.8	.1	.2	8.1
Philadelphia.....	4.5	.4	.4	1.9	-.5	-.5	.0	6.3
Cleveland.....	4.5	.1	.3	-.4	-.8	-.1	.0	3.7
Richmond.....	5.0	.0	1.4	2.0	-2.3	-.2	.1	5.9
Atlanta.....	5.1	.2	.8	2.2	-.6	-.2	.0	7.6
Chicago.....	4.9	.0	1.6	.9	-.7	-.3	.1	6.5
St. Louis.....	4.9	.1	.6	.0	-.1	-.1	.1	5.4
Minneapolis.....	4.7	.4	.7	1.0	-.5	-.1	.4	6.6
Kansas City.....	5.0	.3	1.4	-2.6	-1.1	-.1	.0	2.9
Dallas.....	4.8	.1	.5	1.0	-.9	.1	.0	5.7
San Francisco.....	4.5	.7	.5	-.6	-.8	.0	.0	4.2
Total.....	4.8	.2	1.0	.8	-.8	-.1	.1	6.0

1. Turnover is the replacement of a departing employee with one having a lower pay grade.
Lag is the time during which a position remains vacant.

Table F.10

Capital Outlays of the Federal Reserve Banks, by District, 1991-92

Thousands of dollars, except as noted

District	1991 estimate	1992 budget	Change	
			Amount	Percent
Boston.....	9,044	10,348	1,303	14.4
New York.....	78,773	77,450	-1,323	-1.7
Philadelphia.....	6,456	10,063	3,607	55.9
Cleveland.....	11,092	11,502	410	3.7
Richmond.....	16,475	11,997	-4,477	-27.2
Atlanta.....	9,771	19,402	9,630	98.6
Chicago.....	19,539	23,472	3,933	20.1
St. Louis.....	7,125	7,151	26	.4
Minneapolis.....	8,293	15,778	7,485	90.3
Kansas City.....	5,129	9,148	4,019	78.4
Dallas.....	92,837	37,386	-55,451	-59.7
San Francisco.....	18,543	25,415	6,872	37.1
Total.....	283,076	259,112	-23,964	-8.5

*Table F.11*Budget Performance of the Federal Reserve Banks,
Operating Expenses, by District, 1991

Thousands of dollars, except as noted

District	1991 budget	1991 estimate	Change	
			Amount	Percent
Boston	88,742	88,049	-693	-.8
New York	296,931	297,157	226	.1
Philadelphia	82,398	82,387	-11	.0
Cleveland	87,956	87,847	-108	-.1
Richmond	116,644	117,136	492	.4
Atlanta	143,128	142,623	-505	-.4
Chicago	171,018	170,565	-453	-.3
St. Louis	69,261	68,970	-291	-.4
Minneapolis	70,520	73,445	2,925	4.1
Kansas City	97,753	97,698	-55	-.1
Dallas	98,680	98,685	6	.0
San Francisco	177,935	177,021	-915	-.5
Total	1,500,965	1,501,582	618	.0

*Table F.12*Budget Performance of the Federal Reserve Banks,
Employment, by District, 1991Average number of personnel, except as noted¹

District	1991 budget	1991 estimate	Change	
			Amount	Percent
Boston	1,485	1,481	-4	-.3
New York	4,080	4,122	42	1.0
Philadelphia	1,366	1,384	17	1.3
Cleveland	1,499	1,470	-28	-1.9
Richmond	2,073	2,083	9	.4
Atlanta	2,387	2,378	-9	-.4
Chicago	2,628	2,611	-17	-.7
St. Louis	1,222	1,210	-12	-1.0
Minneapolis	1,099	1,114	15	1.4
Kansas City	1,697	1,683	-14	-.8
Dallas	1,714	1,703	-11	-.6
San Francisco	2,611	2,592	-19	-.7
Total	23,861	23,831	-30	-.1

1. See chapter 3, note 1, for definition of average number of personnel.

Table F.13

Expenses of the Federal Reserve Banks, by Operational Area, 1987-92

Thousands of dollars, except as noted

Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Total
1987.....	86,484	135,693	799,227	170,428	1,191,832
1988.....	87,283	141,524	848,481	185,090	1,262,379
1989.....	93,553	145,547	916,310	195,076	1,350,487
1990.....	98,973	156,934	938,862	211,884	1,406,652
1991 estimate.....	107,530	169,355	985,340	239,356	1,501,581
1992 budget.....	113,021	180,060	1,042,078	261,246	1,596,405
MEMO					
Average annual change, percent.....	5.5	5.8	5.4	8.9	5.9

Table F.14

Employment at the Federal Reserve Banks, by Operational Area, 1987-92

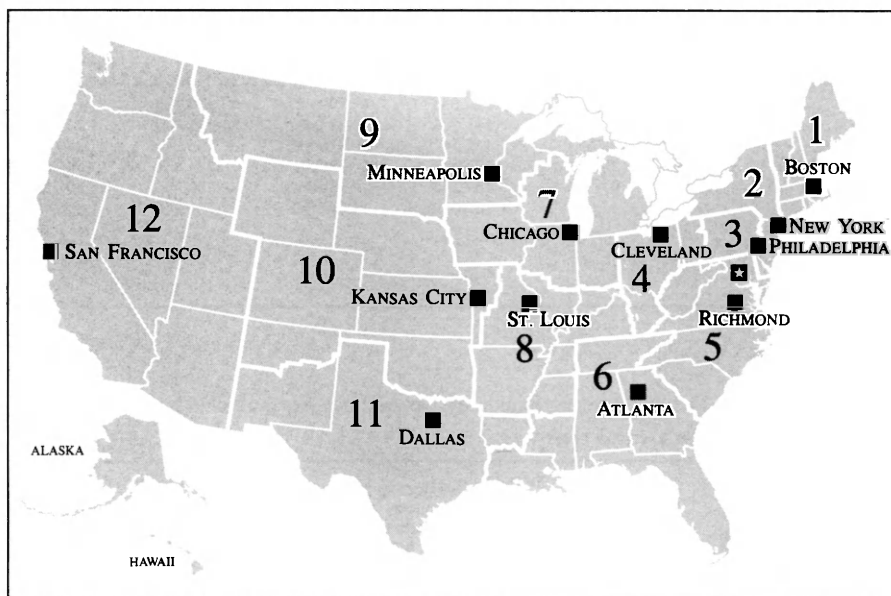
Average number of personnel, except as noted¹

Year	Monetary and economic policy	Services to the U.S. Treasury and other government agencies	Services to financial institutions and the public	Supervision and regulation	Support ²	Overhead ²	Total
1987.....	776	1,837	8,776	2,148	4,452	5,025	23,013
1988.....	766	1,819	9,033	2,209	4,562	4,952	23,340
1989.....	783	1,771	9,423	2,198	4,552	4,948	23,674
1990.....	773	1,816	9,214	2,217	4,533	4,941	23,496
1991 estimate.....	791	1,909	9,121	2,378	4,658	4,974	23,831
1992 budget.....	794	1,902	8,974	2,477	4,730	4,995	23,871
MEMO							
Average annual change, percent.....	.5	.7	.4	2.9	1.2	.0	.7

1. See chapter 3, note 1, for definition of average number of personnel.

2. See table F.3, note 1, for definition.

Maps of the Federal Reserve System



LEGEND

Both pages

- Federal Reserve Bank city
- ⊠ Board of Governors of the Federal Reserve System, Washington, D.C.

Facing page

- Federal Reserve Branch city
- Branch boundary

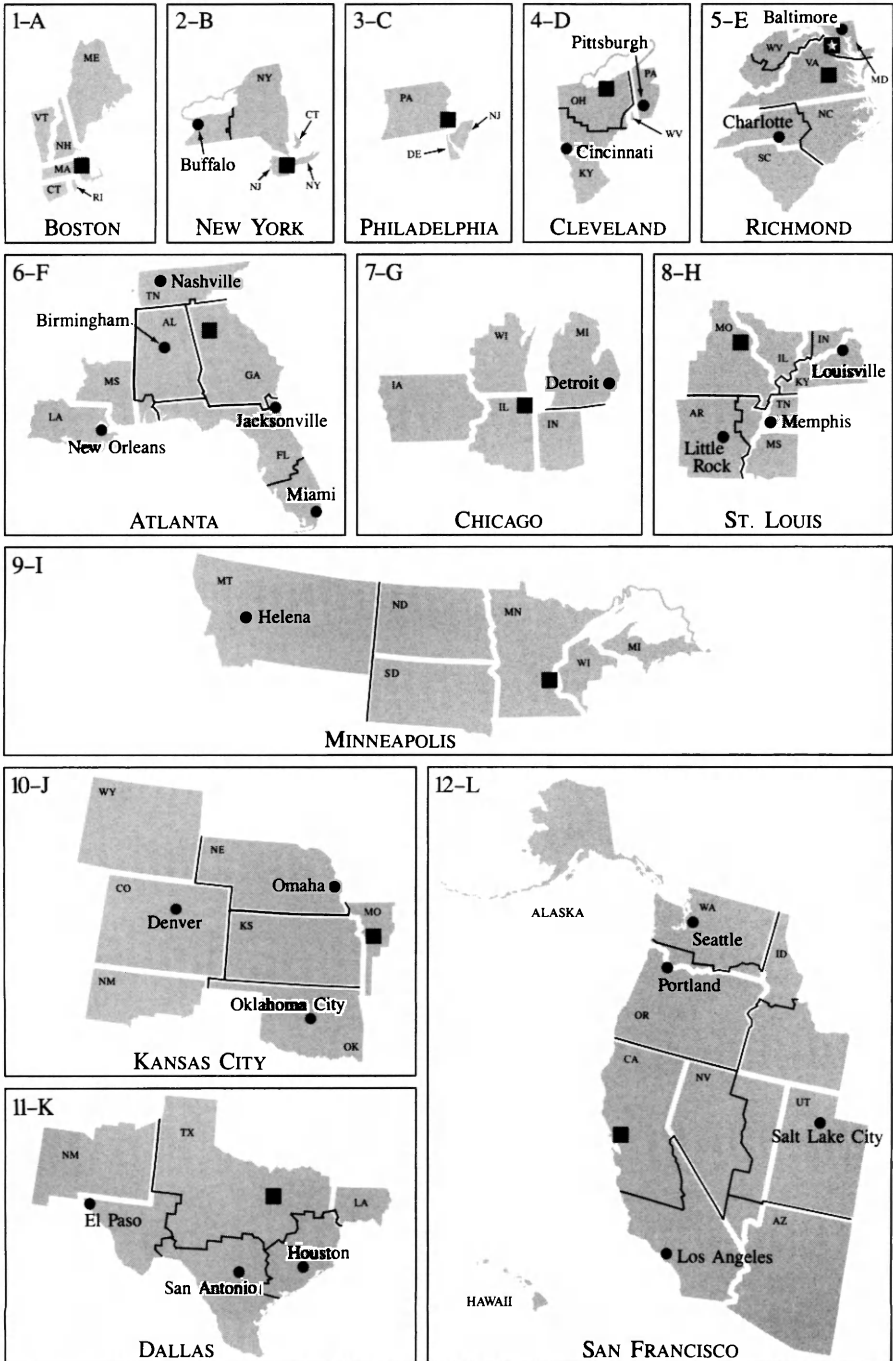
NOTE

The Federal Reserve officially identifies Districts by number and Reserve Bank city (shown on both pages) and by letter (shown on the facing page).

In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii.

The System serves commonwealths and territories as follows: the New York

Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The maps show the boundaries within the System as of October 1990.



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