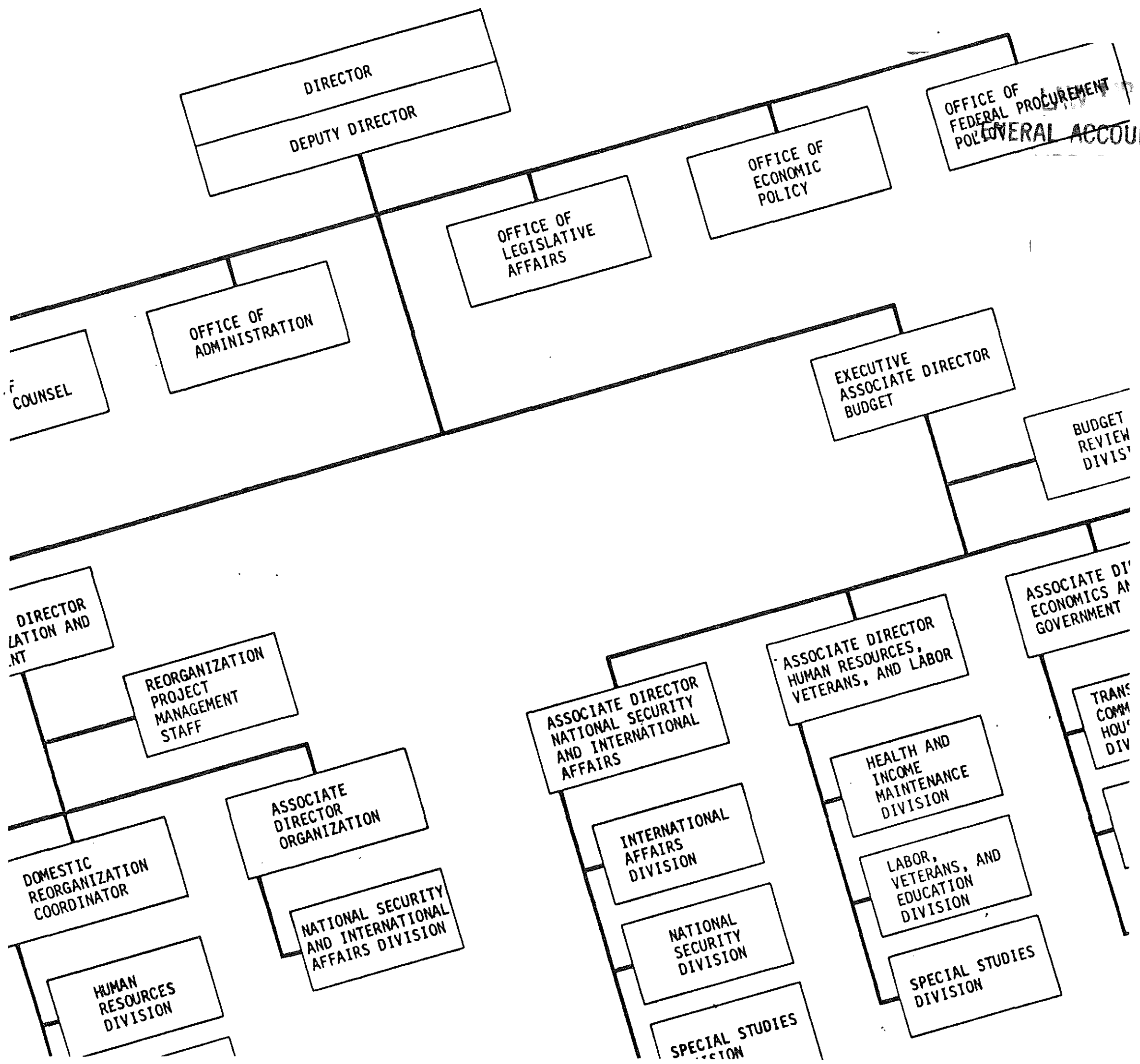
Financial Management Functions in the Federal Government



August 1979

JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

WHAT IS JFMIP ?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices. The Program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General, and was given statutory authorization in the Budget and Accounting Procedures Act of 1950.

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the Government so that they will contribute significantly to the effective and efficient planning and operation of governmental programs. Activities aimed at achieving this objective include:

--Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.

--Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.

--Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.

--Undertaking special projects of a Government-wide nature to resolve specific problems.

--Providing advisory services in dealing with specific financial management problems.

The JFMIP plays a key role in mobilizing resources and coordinating cooperative efforts in the improvement of financial management practices, and relies on the active participation of Federal agencies to be successful.

FINANCIAL MANAGEMENT FUNCTIONS IN THE FEDERAL GOVERNMENT

JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

AUGUST 1979

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FOREWORD

The information presented in this booklet is designed to familiarize its readers with the key central agencies in the Federal Government responsible for providing financial and management guidance to operating agencies.

The booklet, published in 1974 by the Joint Financial Management Improvement Program has been updated and discusses the organizations, authorities, and principal functions of those agencies responsible for:

1. Assisting the President with budget formulation and execution.
2. Supervising and managing the Government's finances.
3. Independently reviewing the efficiency and effectiveness with which Federal programs are managed.
4. Promoting the development and use of improved financial management systems throughout the Government.
5. Providing central leadership for a wide variety of property management and related services for the Government.
6. Fostering a quality Government workforce through various programs to improve personnel management at all Federal agencies.

In addition, the chapter on Federal budgeting offers a summary of the procedures followed in the annual preparation and execution of the Federal budget; an awareness of the checks and balances built into the process, including the respective roles of the Executive and Legislative Branches; and an understanding of the forms and terminology associated with budgeting in the Federal Government.

It should be recognized that although the central agencies in the Federal Government provide direction and guidance, operating agencies have the basic responsibility for designing and implementing financial management systems which support their programs and meet central reporting requirements.

We believe that this booklet, which describes in one volume the functions of the central financial agencies of the Government, will serve as an excellent reference document. Those in the Federal sector should find it useful for furthering their general understanding of the central agencies and for orientation, recruiting, training, and other purposes. Others who are seeking a better understanding of the Federal Government's central financial organizations should also find the booklet invaluable. For these reasons, the Joint Financial Management Improvement Program has updated the document for wide distribution within both the public and private sectors.

We would like to thank the many individuals from the central agencies who contributed significantly in the revision of this document.

Susumu Uyeda
Executive Director

August 1979

CHAPTER 1

THE OFFICE OF MANAGEMENT AND BUDGET

INTRODUCTION

This chapter deals with the organization and functions of the Office of Management and Budget (OMB) and procedures on budget formulation and execution, and OMB's role therein.

The Office of Management and Budget was established by Part I of Reorganization Plan No. 2 of 1970, effective July 1, 1970 (84 Stat. 2085). The Plan designated the Bureau of the Budget as the Office of Management and Budget. It transferred all functions vested by law in the Bureau and its Director to the President, who, in turn, delegated them to the Director of the Office of Management and Budget by Executive Order 11541 of July 1, 1970.

The intent of the Plan was to provide the President with an institutional staff capable in the various areas of executive management--particularly in program evaluation and coordination, Government organization, information and management systems. The Office has continued to perform the key function of assisting the President in the preparation and execution of the Federal budget. That function has been strengthened by a greater emphasis on fiscal and program analysis.

The basic authority for the Office's budget function is derived from the Budget and Accounting Act of 1921, as amended. Reorganization Plan No. 2 of 1970 transferred that function to the President, who, in turn, delegated it to the Director of the Office of Management and Budget. The 1921 Act gave the Bureau of the Budget the authority "to assemble, correlate, revise, reduce, or increase the requests for appropriations of the several departments or establishments." The Act also safeguarded the budget as transmitted by the President to Congress by denying Federal agencies the right to seek funds outside regular budget channels except at legislative request. The Bureau was further authorized to make detailed administrative studies for the President with a view to "securing greater economy and efficiency in the conduct of the public service." The Act required the Bureau "at the request of any committee of either House of Congress having jurisdiction over revenue or appropriations" to render "the committee such aid and information as it may request."

In response to a request by the Chairman of the House Appropriations Committee, the President instructed the Federal agencies in 1921 to submit to him through the Director "all requests or recommendations for legislation, the effect of which would be to create a charge upon the public treasury or commit the Government to obligations which would later require appropriations to meet them." The scope of this clearance procedure was later extended to apply to all legislation.

The Office of Federal Procurement Policy was established in the Office of Management and Budget by Public Law 93-400, enacted August 30, 1974. Its Administrator, appointed by the President with the consent of the Senate, provides overall direction of procurement policies, regulations, and procedures for executive agencies.

President Carter sent to the Congress on July 15, 1977 Reorganization Plan No. 1 of 1977, his plan for the reorganization of the Executive Office of the President. In his message transmitting the Plan, the President noted that he had "asked the OMB to reorganize its management arm to emphasize major Presidential initiatives, such as reorganization, program evaluation, paperwork reduction, and regulatory reform." This organization is reflected in the attached chart which shows OMB reorganization and management activities in two major areas headed by an Executive Associate Director for Reorganization and Management. These are Organization Studies and Management and Regulatory Policy, each headed by Associate Directors.

PRINCIPAL FUNCTIONS OF OMB

OMB is charged with a basic responsibility for assisting the President in the development and effective management of Federal programs. Within this framework, the primary functions of OMB are as follows:

1. To assist the President in the preparation of the budget and the formulation of the fiscal program of the Government.

2. To supervise and control the administration of the budget.

3. To assist the President in his effort to develop and maintain effective Government by reviewing the organizational structures and management procedures of the Executive Branch to assure that they are capable of producing the intended results.

4. To evaluate the performance of Federal programs and to serve as a catalyst in the effort to improve interagency and intergovernmental cooperation and coordination.

5. To assist the President by clearing and coordinating departmental advice on proposed legislation and recommendations for Presidential action on bills passed by the Congress.

6. To assist in the consideration, clearance, and where necessary, the preparation of Executive orders and proclamations.

7. To help develop regulatory reform proposals and programs for paperwork reduction.

8. To keep the President advised of the progress of activities by agencies with respect to those proposed, actually initiated, and completed. This, together with the relative timing of interagency activities, is necessary to assure that programs are coordinated and that money appropriated by the Congress is spent effectively with the least possible overlapping and duplication.

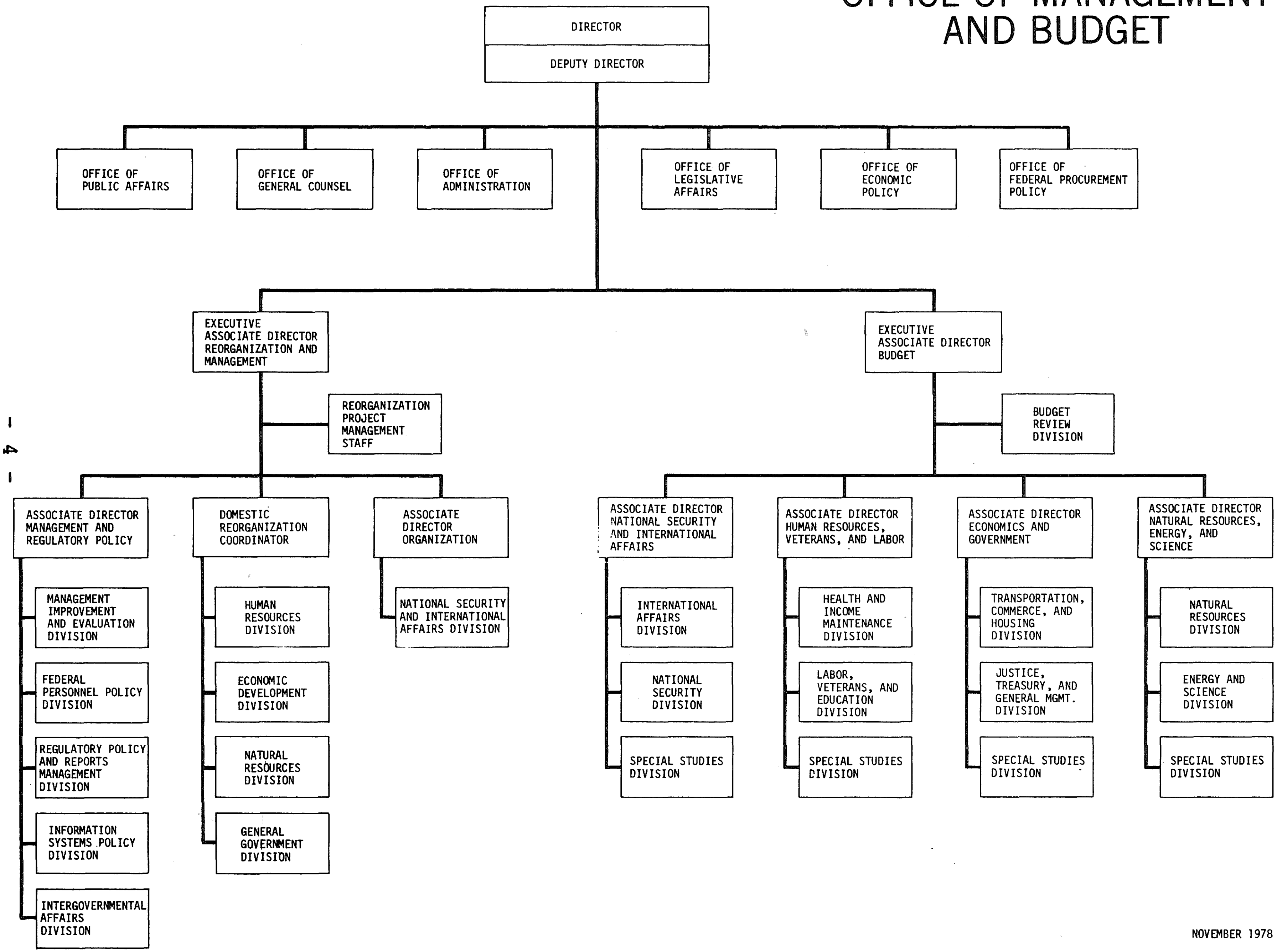
9. To provide overall direction of procurement policies, regulations, and procedures for Executive Agencies.

ORGANIZATION

Director's Office. The Director's Office provides executive direction and coordination for all Office of Management and Budget activities. The Director's Office consists of the Director and Deputy Director and their principal assistants and support personnel.

The Assistant to the Director for Legislative Affairs provides staff support for the Director and works with the Assistant Director for Legislative Reference in reviewing legislative programs of the agencies submitted with the budget estimates and subsequent agency recommendations for the President's legislative program. This division assist the Director and staff of the White House Office in preparation of legislative portions of the State of the Union Message, the Budget Message, the Economic Report, and other special messages, and maintains a continuing record of major legislative proposals under consideration in the Executive

OFFICE OF MANAGEMENT AND BUDGET



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Branch and the Congress. The Assistant Director for Legislative Reference also has responsibility for clearing and coordinating agency legislative proposals and reports on pending legislative, except appropriative bills and reorganization plans.

General Counsel. The General Counsel provides legal advice to the Director, Deputy Director, and the agency staff. He is responsible for the discharge of OMB's responsibilities with respect to clearance of proposed Executive orders and proclamations and participates in the development of legislative proposals sponsored by OMB or which affect OMB functions. In addition, the General Counsel maintains liaison with departmental general counsels and White House staff on legal matters of mutual interest.

Assistants to the Director for Public Affairs and Administration provide support to the Director and to agency staff.

The Assistant Director for Economic Policy provides the Director, other policy officials and OMB staff with needed information on the economy and assistance in the analysis of economic policy issues, including tax expenditures and other tax policy issues.

The Executive Associate Director for Budget supervises and directs those parts of OMB primarily concerned with the preparation and execution of the Federal budget as well as with fiscal and program analysis.

The Assistant Director for Budget Review supervises the division which coordinates and participates in the review of Government programs, the preparation of the budget, and the timely apportioning of funds made available by the Congress. The division prepares fiscal, economic, and financial analyses and forecasts. It recommends and participates in developing budget, tax, credit, and fiscal policies.

The division also publishes the Catalog of Federal Domestic Assistance, a compilation of all grant and aid programs. It formulates, recommends, and implements accounting, auditing, cash management, and other financial management policies; and participates with the Department of the Treasury, General Accounting Office, and the Office of Personnel Management in the Joint Financial Management Improvement Program.

The Associate Directors for National Security and International Affairs; Human Resource, Veterans and Labor; Economics and Government; and Natural Resources, Energy, and Science oversee the divisions which review agency programs and budget requests. These divisions also help control execution of the budget, analyze proposed legislation and Executive orders. They initiate special projects aimed at establishing goals and objectives that will result in long- and short-range improvements in the agencies' financial, administrative and operational managements.

Executive Associate Director for Reorganization and Management. The Executive Associate Director for Reorganization oversees the division involved in reorganization and management improvement of the Executive Branch, program evaluation, paperwork reduction, regulatory reform, inter-agency and intergovernmental relations, and policies on information, computer and teleprocessing systems.

The Associate Director for Organization Studies has under his direction the national security and international affairs, human resources, economic development, natural resources, and general government divisions. Staff of these divisions review functions and programs in major areas such as law enforcement, human services, and community economic development. Their studies and action proposals emphasize how Government can more effectively meet the needs of its citizens.

The Associate Director for Management and Regulatory Policy directs the work of the divisions concerned with management improvement and evaluation, Federal personnel policies, regulatory policy and reports management, information systems, and intergovernmental affairs. These divisions also deal in such areas as paperwork reduction, personnel management, administrative services, program evaluation, and policies on acquisition, utilization, and protection of information systems.

The Office of Federal Procurement Policy was created to improve the economy, efficiency, and effectiveness of the procurement of property and services by Executive agencies. The functions carried out by the Office of Federal Procurement Policy are as follows:

1. Establish a system of coordinated, and to the extent feasible, uniform procurement regulations.

2. Establish criteria for soliciting the viewpoints of interested parties in the development of procurement policies and regulations.

3. Monitor and revise policies relating to reliance by the Government on the private sector to provide needed property and services.

4. Promote and conduct research in procurement policy matters.

5. Establish a Government-wide procurement data system.

6. Recommend and promote programs for recruitment, training, career development, and performance evaluation of procurement personnel.

The authority of the Administrator for Federal Procurement Policy is limited to procurements payable from appropriated funds and to procurements by recipients of Federal grants and assistance funds. In addition, the Administrator is prohibited from interfering with the determination of the need for property or services or from otherwise interfering in specific actions in the award or administration of procurement contracts.

IMPORTANT STATUTORY AUTHORIZATIONS

The following statutory provisions pertain to the Office and its principal functions:

1. Reorganization Plan No. 2 of 1970, 35 F.R. 7959, which established the Office of Management and Budget in the Executive Office of the President. See also Reorganization Plan No. 1 of 1977, 42 F.R. 56101, which changed the functions of the Office from those contained in the 1970 Plan.

2. Budget and Accounting Act of 1921 (31 U.S.C. 1-24), which provides for the preparation of the annual budget and any supplemental or deficiency estimates, and for the conduct of administrative studies to enable the President to achieve greater economy and efficiency in the Executive Branch.

3. Government Corporation Control Act of 1945 (31 U.S.C. 847-849, 852), which extends the Executive budgetary functions to wholly owned Government corporations.

4. Budget and Accounting Procedures Act of 1950 (64 Stat. 832), which amplifies the Budget and Accounting Act by clarifying responsibilities, especially in the fields of administrative analysis and integration of statistical work, and by providing for a continuous program for the improvement of accounting and financial reporting throughout the Government.

5. Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), which prescribes procedures for apportioning appropriations, provides for agency systems of administrative control of funds, and authorizes establishing reserves in appropriations and funds.

6. Act of August 1, 1956 (70 Stat. 782), which amended the Budget and Accounting Act and the Budget and Accounting Procedures Act, mainly to make further improvements in governmental budgeting and accounting methods and procedures.

7. Act of October 30, 1965 (40 U.S.C. 759), which deals with automatic data processing equipment, and under which guidelines and information are provided for the management of automatic data processing activities in the Federal Government.

8. Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3334), under which rules and regulations are prescribed for the coordination of Federal aid in metropolitan areas.

9. Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4201-4244), and the President's memorandum of November 8, 1968, delegating certain authority under that Act (33 F.R. 16487), which require the issuance of rules and regulations with regard to (1) improved administration of grant-in-aid to the States; (2) special or technical services to State and local units of government; (3) the formulation, evaluation, and review of Federal programs and projects having a significant impact on area community development.

10. Section 102 of the District of Columbia Revenue Act of 1970 (P.L. 91-650) which requires the Office to examine and review District of Columbia appropriations to determine priorities of expenditures and where reductions can be made.

11. Office of Federal Procurement Policy Act (P.L. 93-400) established this Office in OMB to provide overall direction of procurement policy and to prescribe procurement policies, regulations, procedures, and forms for Executive Agencies.

12. Sections 201-202 of the Legislative Reorganization Act of 1970 (31 U.S.C. 1151-1153), which assign to the OMB and others the responsibility for developing and maintaining a standardized information and data processing system for budgetary and fiscal data together with a set of standard classifications for Federal programs, activities, receipts, and expenditures that will serve both the Congress and the Executive Branch.

13. Privacy Act of 1974 (P.L. 93-579) which requires the Office to develop guidelines for the implementation of the Act by all agencies and to provide continuing assistance to and oversight of implementation by the agencies.

14. Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344) which, among other things amended the Budget and Accounting Act of 1921, in several respects and established new procedures for the reporting and treatment of impounded funds.

15. 5 U.S.C. 305, which requires the issuance and administration of regulations under which each agency makes systematic reviews of its operations on a continuing basis.

16. 5 U.S.C. 4112, which requires the issuance of regulations with regard to the absorption of costs of Government employee training programs.

17. 44 U.S.C. 1108, which requires approval of the use of appropriated funds for the printing of periodicals.

18. 44 U.S.C. 3501-3511 (the Federal Reports Act), which requires coordination of Federal reporting and statistical services in order to eliminate duplication, reduce costs, and minimize the burden on the public of furnishing information to Federal agencies.

PRINCIPAL EXECUTIVE ORDERS

The statutory authorizations of OMB are supplemented by a number of related Executive orders:

1. Executive Order No. 8248 of September 8, 1939 (4 F.R. 3864), which specified the functions of the Bureau of the Budget in the Executive Office of the President.

2. Executive Order No. 9094 of March 10, 1942 (7 F.R. 1972), which provides for coordination and planning of Federal mapping and chart-making activities.

3. Executive Order No. 10579 of November 30, 1954 (19 F.R. 7925), which provides for decisions on appeal by an agency from any determination by the Administrator of General Services with respect to the establishment of an interagency motor vehicle pool or system.

4. Executive Order No. 10900 of January 5, 1961 (26 F.R. 143), as amended by Executive Order No. 11036 of July 11, 1962 (27 F.R. 6653), which delegates a part of the President's authority to fix amounts of foreign currencies to be used for various purposes and to waive certain statutory requirements.

5. Executive Order No. 11030 of June 19, 1962 (27 F.R. 5847), as amended by Executive Order No. 11354 of July 1, 1967 (32 F.R. 7695), as amended by Executive Order No. 12080 of September 18, 1978 (43 F.R. 42235), which provides for clearance for the President of Executive orders and proclamations.

6. Executive Order No. 11060 of November 7, 1962 (27 F.R. 10925), which requires establishment of rates for hospital care and treatment furnished by the United States for use in connection with recovery from tortiously liable third persons.

7. Executive Order No. 11893 of December 31, 1975 amending Executive Order Nos. 11717 and 11867, relating to joint funding and financial, procurement, and property management functions.

8. Executive Order No. 11541 of July 1, 1970 (35 F.R. 10737), as amended by Section 1 of Executive Order No. 12013 of October 3, 1977 (42 F.R. 54931), which

delegates to the Director, OMB, the functions of the Bureau of the Budget which were transferred to the President by Reorganization Plan No. 2 of 1970.

9. Executive Order No. 11592 of May 6, 1971 (36 F.R. 8555), which delegates to the Director the functions of granting certain approvals under provision of the River and Harbor Act of 1970 and the Flood Control Act of 1970.

10. Executive Order No. 11609 of July 22, 1971 (36 F.R. 113747), which delegates to the Director, OMB, statutory authorities of the President involving (1) regulatory functions with respect to quarters and facilities, (2) transfers of balances of appropriations, (3) interagency land transfers, land acquisitions, contracts for land acquisitions and other land transactions, and (4) allocation of funds for management improvement.

11. Executive Order No. 11721 of May 23, 1973 (38 F.R. 13717), as amended by Executive Order No. 12004 of July 20, 1977 (42 F.R. 37527), and as amended by Section 2-101(a) of Executive Order No. 12107 of December 28, 1978 (44 F.R. 1055), designates the Director of OMB, the Director of the Office of Personnel Management, and the Secretary of Labor as the President's agents under the Federal Pay Comparability Act of 1970.

12. Section 1-107 of Executive Order No. 12113 of January 4, 1979 (44 F.R. 1955) provides for OMB to review reports or plans for water projects in order to determine their relationship to the President's program.

13. Executive Order No. 11961 of January 19, 1977 (42 F.R. 4321) provides for OMB to exercise oversight over certain international investment surveys.

14. Executive Order No. 11954 of January 7, 1977 (42 F.R. 2297), as amended by Executive Order No. 12030 of December 15, 1977 (42 F.R. 63633) provides for OMB to exercise oversight over Federal real property policies.

15. Executive Order No. 12039 of February 24, 1978 (43 F.R. 8095) delegates certain science and technology functions to the Director, including those related

16. Executive Order No. 12044 of March 23, 1978 (43 F.R. 12661) assigns to the Director the responsibility for management and oversight of the Government-wide regulatory improvement program.

17. Executive Order No. 12046 of March 27, 1978 (43 F.R. 13349) delegates to the Director the responsibility for telecommunications procurement and for determining Government appeals from radio frequency assignments by the Secretary of Commerce.

18. Executive Order No. 12088 of October 13, 1978 (43 F.R. 12088) assigns oversight responsibility to the Director for agency pollution control plans.

19. Executive Order No. 12092 of November 1, 1978 provides for the Administrator of the Office of Federal Procurement Policy, Office of Management and Budget, to exercise overall direction of the program designed to prohibit inflationary procurement practices.

THE BUDGET PROCESS

The budget system of the U.S. Government supports decisionmaking and management of programs in relation to the requirements of the Nation, effective financial control, and accountability for the use of Federal resources. The budget process has four main phases: (1) executive formulation and transmittal; (2) congressional action; (3) budget execution and control; and (4) review and audit. Each of these phases interrelates with and overlaps the others.

Executive Formulation and Transmittal

The budget sets forth the President's financial plan of operation and thus indicates his priorities for the Federal Government during the coming year. The President's transmittal of his budget to the Congress early in each calendar year is the climax of many months of planning and analysis throughout the Executive Branch. Formulation of the budget for a fiscal year begins in the spring of the year, prior to the beginning of the fiscal year to which the budget will pertain, although general goals were set earlier.

In connection with the development of the budget, a three-year budget planning and tracking system expands the budget planning horizon to cover the two years following the budget year and integrates long-range planning into the executive budget cycle. The multi-year budget planning system requires that broad fiscal goals and agency spending targets beyond the budget year be established during the budget planning process and that agency budget requests be prepared in the context of the expanded planning period. Long-range implications are identified and considered during the decisionmaking process and to the extent possible, decisions are made for the two years beyond the budget year as well as for the budget year.

During the period when a budget is being formulated in the Executive Branch, there is a continuous exchange of information, proposals, evaluations, and policy decisions among the President, the Office of Management and Budget (OMB), and the various Government agencies. Decisionmaking in the budget process is facilitated by the use of zero-base budgeting, a management process that provides for an in-depth evaluation of all proposed and existing programs and activities in conjunction with planning and budgeting.

In the spring, agency programs are evaluated, policy issues are identified, and budgetary projections are made, giving attention both to important modifications and innovations in programs and to alternative long-range program plans. These budgetary projections, including projections of estimated receipts prepared by the Department of the Treasury, are then presented to the President for his consideration, and the major issues are discussed. At about the same time, the President receives projections of the economic outlook that are prepared jointly by the Council of Economic Advisors, and Departments of Commerce, Labor, the Treasury, and OMB.

Following a review of these projections, the President establishes general budget and fiscal policy guidelines for the fiscal year that will begin about 15 months later, and for the two years beyond. General policy directions and planning ceilings are then given to the agencies to govern the preparation of their budget requests.

Throughout the fall and early winter the Executive Branch is involved in the development of the President's budget. Current services estimates are also prepared to provide the Congress with a basis for the review of the President's budget. These estimates are projections of budget authority and outlays required to continue Federal programs and activities in the upcoming fiscal year without policy changes from the fiscal year in progress at the time the estimates are submitted. The Congressional Budget Act of 1974 requires that these estimates be transmitted by November 10 in order to provide the Congress with early information on projected costs of current programs. However, the current services estimates transmitted at that time did not provide a suitable basis for review, since the underlying assumptions could vary before the transmittal of the budget. Therefore, the Congress has passed a joint resolution continuing an experiment in which the current services estimates are transmitted with the President's budget and therefore, are based upon the same economic assumptions.

The primary phase of the budget process involves the formulation and preparation of the President's budget for transmittal to the Congress. Budget determinations are developed after detailed reviews of the agency zero-base budget requests and the Government-wide OMB ranking of zero-base decision packages falling at the margin of approved agency totals. These determinations are then discussed with the agencies and may be revised as a result of later Presidential decisions. Overall fiscal policy issues--relating to total budget outlays and receipts--are reexamined. Consistent with the multiyear budget planning system, the effects of budget decisions on outlays in the years that follow are also considered and are explicitly taken into account. Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, and the total outlays and receipts that are appropriate in relation to current and prospective economic conditions. The budget reflects the results of both of these considerations.

Congressional Action

The Congress can act to approve, modify, or disapprove of the President's budget proposals. It can change funding levels, eliminate proposals, or add programs not requested by the President. It may also act upon legislation determining taxes and other means of increasing or decreasing receipts.

In making appropriations, the Congress does not normally vote on the level of outlays directly, but rather on budget authority. The Congress first enacts legislation that authorizes an agency to carry out a particular program and, in some cases, includes guidance on the amount that subsequently should be appropriated for the program. Many programs are authorized for a specified number of years or indefinitely; other programs, such as most education and health programs, nuclear energy programs, space exploration, defense procurement, foreign affairs, and some construction programs, require annual authorizing legislation.

Budget authority is usually provided in a separate, subsequent action. Generally, budget authority becomes available each year only as voted by the Congress. However, in a significant number of cases, the Congress has voted permanent budget authority, under which funds become available annually without further congressional action. Most trust fund appropriations are permanent, as are a number of Federal fund appropriations, such as the appropriation to pay interest on the public debt.

Congressional review of the budget begins when the President transmits his budget estimates to the Congress within 15 days after the start of each new session in January, as required by law. Under the procedures established by the Congressional Budget Act, the Congress considers budget totals before completing action on individual appropriations. The act requires that each standing committee of the Congress submit reports on budget estimates to the House and Senate Budget Committees by March 15; and that the Congressional Budget Office submit a fiscal report to the two budget committees by April 1. This is followed, no later than May 15, by the adoption of the first concurrent budget resolution, containing Government-wide budget targets of receipts, budget authority, and outlays to guide the Congress in its subsequent consideration of appropriations and revenue measures.

Congressional consideration of requests for appropriations and for changes in revenue laws occurs first in the House of Representatives. The Appropriations Committee, through its subcommittees, studies the proposals for appropriations and examines in detail each agency's performance. The Ways and Means Committee reviews proposed revenue measures. Each committee then recommends the action to be taken by the House of Representatives.

As the appropriation and tax bills are approved by the House, they are forwarded to the Senate, where a similar review process is followed. In case of disagreement between the two Houses of the Congress, a conference committee (consisting of Members of both bodies) meets to resolve the issues. The report of the conference committee is returned to both Houses for approval. When the measure is agreed to, first in the House and then in the Senate, it is ready to be transmitted to the President in the form of an enrolled bill, for his approval or veto.

After action has been completed on all money bills, the Congress adopts, by September 15, a second concurrent resolution containing budget ceilings classified by function for budget authority and outlays, and a floor for budget receipts. This resolution may retain or revise the levels set earlier in the year, and can include directives to the appropriations committee and to other committees to recommend changes in new or carryover authority or entitlements. Similarly, the second resolution may direct the appropriate committees to recommend changes in budget receipts or in the statutory limit on the public debt. Changes recommended by various committees pursuant to the second budget resolution are to be reported in a reconciliation bill (or resolution, in some cases) on which the Congress must complete action by September 25, a few days before the new fiscal year commences on October 1.

After the Congress completes action on the reconciliation bill or resolution, it may not consider any spending or revenue legislation that would breach any of the levels specified in the second resolution. The Congress would be able to pass a supplemental appropriation that would cause budget authority or spending to rise above, or reduce receipts below, the second resolution's totals only if it adopted a new budget resolution changing the levels set by the second resolution.

If action on appropriations is not completed by the beginning of the fiscal year, the Congress may enact a "continuing resolution" to provide authority for the affected agencies to continue operations usually until their regular appropriations are enacted.

Budget Execution and Control

Once approved, the budget becomes the financial plan for the operations of each agency during the fiscal year. Under law, most budget authority and other budgetary resources are made available to the agencies of the Executive Branch through an apportionment system. The Director of OMB apportions (distributes) appropriations and other budgetary resources to each agency by time periods (usually quarters) or by activities. Obligations may not be incurred in excess of the amount apportioned. The objective of the apportionment system is to ensure the effective and orderly use of available authority and to reduce the need for requesting additional or supplemental authority.

Changes in laws or other factors may indicate the need for more authority during the year, and supplemental requests may have to be transmitted to the Congress. On the other hand, reserves may be established under the Antideficiency Act to provide for contingencies or to effect savings made possible by or through changes in requirements or greater efficiency of operations. Amounts may also be withheld for policy or other reasons pursuant to the Impoundment Control Act of 1974.

Whenever the President determines that all or part of any budget authority provided by the Congress will not be required to carry out the full objectives or scope of a program for which it was provided, or that such budget authority should be rescinded for fiscal policy or other reasons, a special message is transmitted by the President to the Congress requesting a rescission of the budget authority. The budget authority proposed by the President for rescission must be made available for obligation unless both the House and the Senate pass a rescission bill within 45 days of continuous session after receiving the President's message.

Whenever all or part of any budget authority provided by the Congress is deferred (that is, temporarily withheld from obligation), the President transmits a special message to the Congress on such deferrals. Either House may, at any time, pass a resolution disapproving this deferral of budget authority, thus requiring that the funds be made available for obligation. When no congressional action is taken, deferrals may remain in effect until, but not beyond the end of the fiscal year. If the funds remain available beyond the end of a fiscal year and continued deferral of their use is desired by the President, he must transmit a new special message to the Congress.

Review and Audit

This is the final phase in the budget process. The individual agencies are responsible for assuring--through their own review and control systems--that the obligations they incur and the resulting outlays follow the provisions of the authorizing legislation and appropriations, as well as other laws and regulations relating to the obligation and expenditure of funds. OMB reviews program and financial reports and keeps abreast of agency programs and the effort to attain program objectives.

In addition, the General Accounting Office (GAO), as an agent of the Congress, regularly audits, examines, and evaluates Government programs. Its findings and recommendations for corrective action are made to the Congress, to OMB, and to the agencies concerned. The GAO also monitors the Executive Branch's reporting of special messages on proposed rescissions and deferrals. The GAO reports any items not reported by the Executive Branch and any differences that it may have with the classification (as a rescission or deferral) of withholdings included in special messages transmitted by the President. The GAO may bring civil actions to obtain compliance should the President fail to make budget authority available in accordance with the Impoundment Control Act of 1974.

BUDGET PRESENTATION

Agencies and Programs

The budget totals cover agencies and programs (including Government corporations) owned by the Federal Government, no matter how funded, except for off-budget Federal entities, such as the Federal Financing Bank, (because these transactions have been excluded under provision of Law) and the transactions of privately owned, Government-sponsored enterprises, such as the Federal land banks and Federal home loan banks.

Functional Classification

The functional classification presented in the President's budget arrays budgetary data according to the major purpose served by the unit being classified. In accordance with the Congressional Budget Act of 1974, the Congress must pass resolutions establishing budget targets and ceilings by functional categories.

The following criteria are used in establishing and in assigning activities to functional categories:

--A function must have a common end or ultimate purpose addressed to an important national need. (The emphasis is on what the Federal Government seeks to accomplish rather than the means of accomplishment, what is purchased, or the clientele or geographic area served.)

--A function must be of continuing national importance and be significant in size.

--Each basic unit of classification (generally the appropriation or fund account) is classified into the single best or predominant purpose and assigned to only one function. However, when an account serves more than one major purpose, it may be subdivided into two or more subfunctions.

--Activities and programs are normally classified by common purpose (or function) regardless of which agencies conduct the activities.

National Needs Presentation

Section 601 of the Congressional Budget Act of 1974 requires that the budget for each fiscal year beginning with the fiscal year ending September 30, 1979:

> shall contain a presentation of budget authority, proposed budget authority, outlays, proposed outlays, and descriptive information in terms of--
>
> (1) a detailed structure of national needs which shall be used to reference all agency missions and programs;
>
> (2) agency missions; and
>
> (3) basic programs.

The functional presentation of the budget is used to meet the national needs requirement because the thrust of the budget functional classification has always been to summarize what the Government is doing, or expects to do, in terms of the ultimate purpose that the Government programs are designed to serve. Each major function is described in the context or national needs being served and subfunctions are described in the context of major missions devoted to serving national needs. This is in keeping with the act, which states:

> To the extent practicable, each agency shall furnish information in support of its budget requests in accordance with it assigned missions in terms of Federal functions and subfunctions, including mission responsibilities of component organizations, and shall relate its programs to agency missions.

In the national needs presentation, Federal programs are discussed in terms of national needs and the functional classification. In this context, a single program may be identified as serving several national needs even though classified in a single function. For example, medicare, primarily a health program, is identified as meeting the national need for improved health care. However, it also provides a form of income security by paying for medical bills and, hence, can also be identified as meeting the national need for income security. A discussion of Federal programs based solely on the function classification system would have been limited to discussion of each program, classified by major purposes served, in only one category.

Types of Funds

Agency activities are financed through Federal funds and through trust funds, both of which are included in the budget.

Federal funds are of four types. The general fund is credited with receipts not earmarked by law for a specific purpose, and is charged with payments from appropriations of such receipts and from general borrowing. Special funds contain Federal receipts earmarked for specific purposes, other than for carrying out a cycle of operations. Public enterprise (revolving) funds finance a cycle of business-type operations in which outlays generate collections primarily from the public. Intragovernmental funds, including revolving management and consolidated working funds, facilitate financing operations within and between Government agencies.

Trust funds are established to account for receipt and expenditure of moneys by the Government for use in carrying out specific purposes and programs in accordance with the terms of a trust agreement or statute. These moneys are not available for the general purposes of the Government. Within the category of trust funds there is a special subcategory of trust revolving funds that carry on a cycle of business-type operations.

Current Expense and Capital Investment

The budget includes spending for both current operating expenses and capital investment, such as the purchase of lands, structures, and equipment. It also includes capital investment in the form of lending and the purchase of investments.

BUDGET AUTHORITY AND RELATED TRANSACTIONS

Budget Authority

Government agencies--whether or not they are included in the budget totals--are permitted to enter into obligations requiring either immediate or future payment of money only when they have been granted authority to do so by law. This authority is usually provided as budget authority. (Collections specifically authorized to be credited to appropriation and fund accounts are also available for obligation.)

Budget authority permits obligations to be incurred. The amounts of budget authority requested are determined by the nature of the programs or projects being funded.

For activities for which the cost depends upon the program level planned for a fiscal year, the amount of budget authority requested covers the obligations expected to be incurred during the year. Most of these Federal activities, such as operations and maintenance, entitlement programs and continuing research programs, are fully funded on an annual basis.

For most projects that are separate and distinct units, particularly direct Federal major procurement and construction projects, "full funding" is requested. That is, funds are requested to cover the entire cost to complete the project at the time it is initiated, regardless of the expected time of completion.

Budget authority usually takes the form of appropriations, which permit obligations to be incurred and payments to be made. Some budget authority is in the form of contract authority, which permits obligations in advance of appropriations and therefore requires a subsequent appropriation or the collection of receipts to "liquidate" (pay) these obligations. There is also authority to borrow; such budget authority permits the use of borrowed money to incur obligations and make payments.

Since January 1976, it has not been in order for either House of the Congress to consider any bill, with certain exceptions, that provides new borrowing or contract authority unless that bill also provides that such new spending authority will be effective only to the extent or in such amounts as are provided in appropriations acts.

Most appropriations for current operations are made available for obligations only during a specified fiscal year (one-year appropriations). Some are for a specified longer period (multiple-year appropriations). Others, including most of those for construction, some for research, and many trust fund appropriations, are made available for obligations until the objectives have been attained (no-year appropriations).

When budget authority is made available by the Congress for a specific period of time, any part that is not used for obligations during that period expires and cannot be used later. Reappropriations--Congressional actions to continue availability of unobligated amounts that have expired or would otherwise expire--are counted as budget authority in the year for which the availability is extended.

A rescission is a legislative action that cancels new budget authority or unobligated balances of budget authority prior to the time the authority would otherwise have expired. Rescissions are offset against new budget authority in arriving at the total of budget authority for each year. A deferral is an Executive Branch action or inaction--including the establishment of reserves under the Antideficiency Act--that effectively delays the obligations or expenditure of budget authority.

Most authority to obligate funds is granted year by year (current authority). Under certain laws, some budget authority in Federal funds and most budget authority in trust funds becomes available from time to time without further action by the Congress (permanent authority).

The amount of budget authority is usually stated specifically in the legislation that makes it available (definite authority). In some cases the amount is left indefinite, to be determined by subsequent circumstances (indefinite authority). Examples of the latter type are the appropriation for interest on the public debt, and the trust fund appropriation equal to receipts under the Federal Insurance Contributions Act (social security).

Obligations Incurred

Following the enactment of budget authority, obligations are incurred by Government agencies. Such obligations include the current liabilities for salaries and wages, certain contractual services, and interest; contracts for the purchase of supplies and equipment, construction and the acquisition of land; contracts to make loans, and other contractual arrangements requiring the payment of money.

Outlays

Obligations generally are liquidated by the issuance of checks or the disbursement of cash; such payments are called outlays. In lieu of issuing checks, obligations may also be liquidated (and outlays occur) by the maturing of interest coupons in the case of some bonds, or by the issuance of bonds or notes (or increases in the redemption value of bonds outstanding). Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year. Such outlays, therefore, flow in part from unexpended balances of prior year budget authority and in part from budget authority provided for the year in which the money is spent. Total budget outlays are stated net of deductions for offsetting collections (see collections below), and exclude outlays of off-budget Federal entities. Payments for tax credits in excess of tax liabilities are treated as outlays rather than as an adjustment to budget receipts.

Balances of Authority

Not all budget authority enacted for a fiscal year is obligated and paid out in the same year. The obligated balance is that portion of the budget authority that has been obligated but not yet paid. For example, in the case of salaries and wages, one to three weeks elapse between the time of obligation and the time of payment. In the case of major procurement and construction, up to several years may elapse. Obligated balances of budget authority are carried forward until the obligations are subsequently paid. In addition, in multiple-year or no-year accounts, budget authority that is still available for obligation (unobligated balances) may be carried forward for obligation in the following year.

Therefore, a change in the amount of budget authority for a given year does not necessarily result in a similar change in either the obligations incurred or the budget outlays of that same year. A change in budget authority in any one year may have an effect on obligations for two or more years, and may affect budget outlays for an even longer period. In the case of standby budget authority, obligations and outlays may never materialize.

Allocations Between Agencies

In some cases, an agency may share in the administration of a program for which appropriations are made to another agency or to the President. This is made possible by the establishment of allocations from the "parent" account, to which the appropriation was made. Obligations incurred through such allocations are included with the parent account in the Budget (without separate identification) and in the Budget Appendix (where the total obligations of each participating agency are identified separately under the parent account).

COLLECTIONS

In general, amounts collected during the year are classified into two major categories:

--Budget receipts, which are compared with total outlays in calculating the budget surplus or deficit.

--Offsetting collections, which are deducted from disbursements in calculating total outlays. Corresponding offsets are made in arriving at total budget authority and net obligations incurred.

Budget Receipts

These are collections from the public that result from the exercise of the Government's sovereign or governmental powers and from contributions paid by participants in certain voluntary Federal social insurance programs. These collections, also called governmental receipts, consist primarily of tax receipts and social insurance premiums, but also include receipts from court fines, certain licenses, and deposits of earning by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by State and local governments) are also counted as budget receipts.

Offsetting Collections

These are collections from other Government accounts or from transactions with the public that are of a business-type or market-oriented nature. They are classified into two major categories: collections credited to appropriation or fund accounts and offsetting receipts (that is, amounts deposited in receipt accounts). In general, the distinction between these two major categories is that collections credited to appropriation or fund accounts normally can be used without appropriation action by the Congress, whereas funds in receipt accounts cannot be used without being appropriated.

Collections credited to appropriation or fund accounts occur in two circumstances:

1. Reimbursements. When authorized by law, amounts collected for materials or services furnished (for example, amounts received from the public to pay expenses of providing information under the Freedom of Information Act) are treated as reimbursements to appropriations. These collections are netted in determining outlays from such appropriations.

2. Revolving funds. In the three types of revolving funds--public enterprise, intragovernmental, and

trust revolving--collections are netted against spending and outlays are reported as the net amount.

Offsetting receipts generally are deducted from budget authority and outlays by functions and/or subfunction, and by agency. Offsetting receipts are subdivided into two categories, as follows:

1. Proprietary receipts from the public. These are collections from the public--deposited in receipt accounts of the general fund, special funds, or trust funds--that arise out of the business-type or market-oriented activities of the Government (for example, loan repayment, interest, sale of property and products, charges for nonregulatory services, and rents and royalties). Such collections are not counted as budget receipts, and, with one exception, are offset against total budget authority and outlays by agency and by function. The exception consists of receipts from rents and royalties from outer Continental Shelf lands that are deducted from total budget authority and outlays for the Government as a whole rather than from any single agency or function.

2. Intragovernmental transactions. These are payments into receipt accounts from Federal appropriations or fund accounts. They are treated as an offset to budget authority and outlays, rather than as a budget receipt. Intragovernmental transactions may either be intrabudgetary (where the payment and receipt both occur within the budgetary universe) or result from receipts from off-budget Federal entities in those cases where the payment is made by a Federal entity whose funds are exluded from the budget totals. Normally, intragovernmental transactions are deducted from both the outlays and the budget authority for the agency receiving the payment. However, in two cases intragovernmental transactions are not deducted from the figures of any agency or function. Instead, intragovernmental transactions that involve agencies' payments (including payments by off-budget Federal entities) as employers into employee retirement trust funds and the payment of interest to nonrevolving trust funds appear as special deduct lines in computing total budget authority and outlays for the Government.

Intrabudgetary transactions are further subdivided into three categories: (1) interfund transactions, where the payment is from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, in those cases where the payment and receipt both occur within the Federal fund group; and (3) trust intrafund transactions, in those cases where the payment and receipt both occur within the trust group.

OTHER TRANSACTIONS

Borrowing and Repayment

Borrowing and debt repayment are not treated as receipts or outlays; if they were, the budget could be balanced simply by borrowing. This rule applies both to borrowing in the form of public debt securities and to specialized forms of borrowing--such as the sale of agency securities, the assumption of military family housing mortgages, and certificates representing participation in a pool of loans. However, some transactions that otherwise would be treated as borrowing are required by law to be treated as a sale of assets. This results in collections being credited to an appropriation or fund account with a corresponding reduction in outlays.

Exercise of the Monetary Power

Seigniorage is the profit from coining money; it is the difference between the value of coins as money and their cost, including the costs of manufacturing. Seigniorage on coins arises from the exercise of the Government's monetary powers and differs from receipts coming from the public, since there is no corresponding payment by another party. Therefore, seigniorage is excluded from receipts and treated as a means of financing a budget deficit, or as a supplementary amount to be applied to reduce debt or to increase the cash in Treasury in the years of a budget surplus. The increment (profit) resulting from the reevaluation of gold as a monetary asset is treated like seigniorage. In recent years, the profit from the sale of gold was treated as a proprietary receipt. However, since the value of gold is determined by its value as a monetary asset rather than as a commodity, the budget treats all of the profits on gold sales as a means of financing rather than as an offsetting collection.

Liabilities in Deposit Fund Accounts

Accounts outside the budget, known as deposit funds, are established to record certain amounts held in suspense temporarily, or held by the Government as agent for others (for example, savings accounts for military personnel, State and local income taxes withheld from Federal employees' salaries, and payroll deductions for the purchase of savings bonds by civilian employees of the Government). Such transactions affect Treasury's cash balances even through they are not a part of the budget.

Exchange of Cash

The Government's deposit with the International Monetary Fund (IMF) are considered to be similar to cash assets. Therefore, the movement of money between the IMF and the Department of the Treasury is not in itself considered a receipt or an outlay, borrowing or lending. In a similar manner, the holdings of foreign currency by the Exchange Stabilization Fund (ESF) are considerd to be cash assets. Changes in these holdings are outlays only to the extent there is a realized loss, and offsetting collections only to the extent there is a realized profit on the exchange.

Obligations to Multilateral Development Banks

Debt instruments issued (in lieu of checks) in payment of subscriptions to multilateral development banks are not considered borrowing or outlays, but remain a part of the obligated balances until they are cashed, at which time they become outlays. These differ only in form, and not in substance, from ordinary balances for unpaid obligations.

CHAPTER 2

THE DEPARTMENT OF THE TREASURY

INTRODUCTION

This chapter describes the functions and responsibilities of the Treasury Department, the manager of the Federal financial and financial reporting systems.

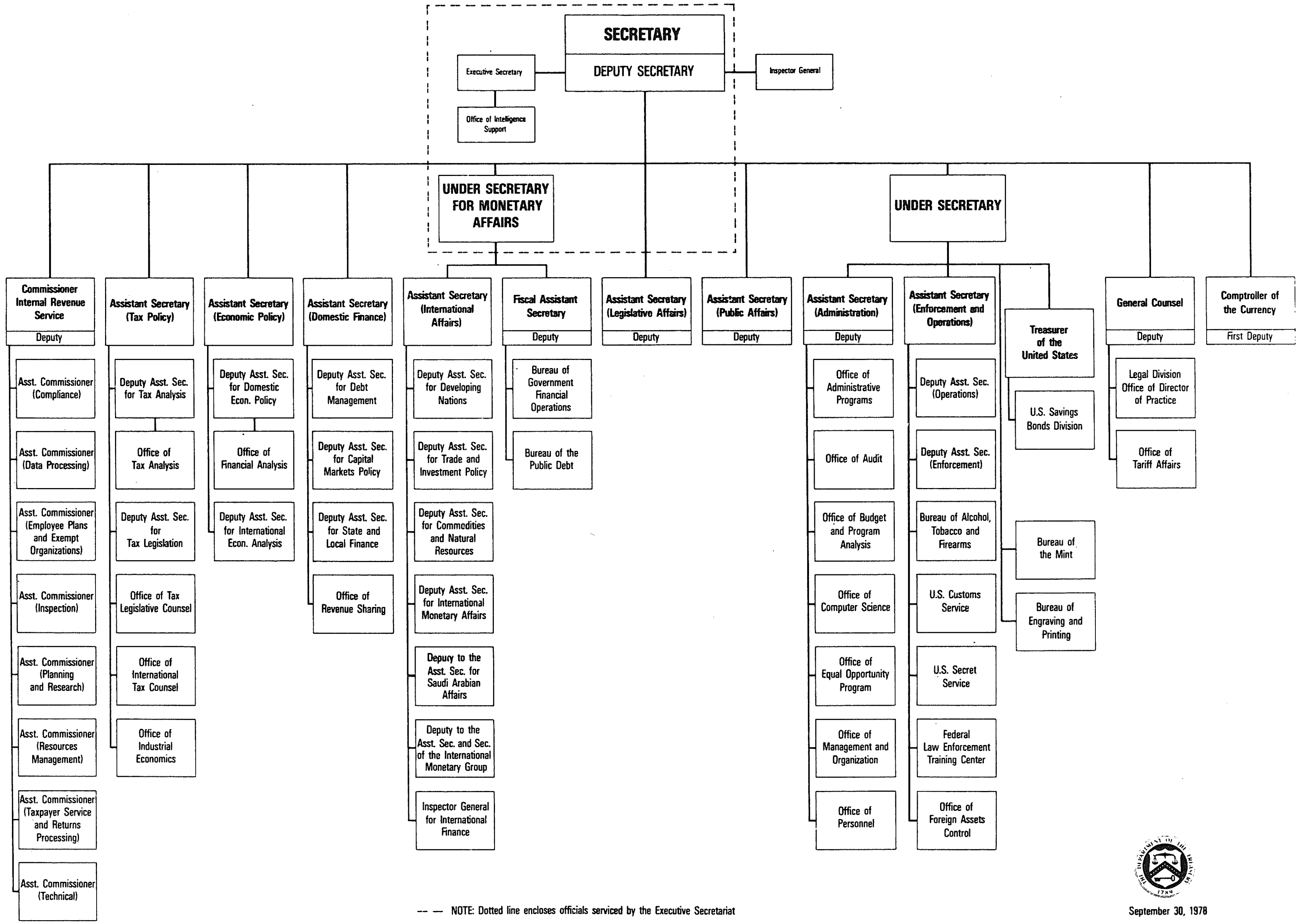
The Federal Government, like any enterprise, needs a financial organization to estimate its financial needs; receive, keep, and disburse its funds; and record and report its financial information. The Constitution placed the fund-raising and fund-granting authority in the Congress. The Congress determines the purposes for which public funds will be spent and the ways in which the revenues will be raised. The duty of the Treasury Department is to conduct the flow of funds in the manner prescribed by the Congress.

The Treasury Department was created by the Act of September 2, 1789, as the official fiscal agency of the Government. The head of the Department is the Secretary of the Treasury, who is charged with the general duties of supervising and managing the Government's finances. The basic laws under which many of the budgeting, accounting, reporting, and auditing functions in the Government are carried out are the Budget and Accounting Act of 1921, and the Budget and Accounting Procedures Act of 1950.

ORGANIZATION OF THE TREASURY DEPARTMENT

The principal operating bureaus and offices of the Treasury Department, and their primary areas of responsibility, are shown in the organization chart and the following tables. A more detailed description of the Treasury's functions as manager of (1) the Federal financial system and (2) the financial reporting system for the Government, is presented in the subsequent sections of this chapter.

ORGANIZATION OF THE DEPARTMENT OF THE TREASURY



— — NOTE: Dotted line encloses officials serviced by the Executive Secretariat

September 30, 1978

Division or Office	Functions
The Secretary	Advises President on monetary, fiscal, and economic policy. Oversees all Treasury employees.
Bureau of Alcohol, Tobacco, and Firearms	Regulates those three industries, enforces applicable laws, insures collection of relevant taxes.
Office of the Comptroller of the Currency	Acts as administrator of national banks.
U.S. Customs Service	Enforces import and export laws. Assesses and collects duties.
Bureau of Engraving and Printing	Designs, engraves, and prints paper currency, Treasury securities, postage stamps, and other documents.
Bureau of Government Financial Operations	Receives public monies, manages Government's central accounting and financial reporting system, issues checks, manages cash resources, and performs various banking functions.
Internal Revenue Service	Determines, assesses, and collects income and other taxes.
Bureau of the Mint	Manufactures coins and medals. Maintains custody of gold and silver stock.
Bureau of the Public Debt	Receives, stores, issues, and redeems Government securities.
Office of Revenue Sharing	Controls sharing of Federal funds with state and local goverments.
U.S. Savings Bond Division	Promotes sale and retention of U.S. Savings Bonds.
U.S. Secret Service	Protects President and other high Government officials. Enforces laws against counterfeiting currency and forging checks.
Federal Law Enforcement Training Center	Operates a school in Georgia for training Federal Law agents.

FUNCTIONS ASSOCIATED WITH THE FEDERAL FINANCIAL SYSTEM

Cash Management

The Treasury Department acts as the Government's treasurer and, as such, has the responsibility of efficiently managing the nation's cash resources, which includes estimating the Government's financial needs, and receiving, keeping, and disbursing its funds. Even though the Congress has the power to control the purse as provided in the Constitution, the appropriation actions of that body do not in themselves create public funds for the Treasury to disburse.

The cash balance maintained by the Treasury Department is based on the current disbursing needs of the Government. Sufficient cash is not kept in the Treasury to meet all unexpended appropriations and other expenditure authority available to the various Government agencies. In determining the cash balances to be maintained, consideration is also given to the effect the flow of cash in and out of the Treasury will have on the economy of the country.

Most of the public funds in the Treasury are held in or for the U.S. Treasury account. Public funds are acquired mainly through (1) collections of taxes and other revenues, (2) sales of public debt obligations, (3) collections of moneys held by the Government as trustee in accordance with the terms of a trust agreement or statue, and (4) miscellaneous reimbursements and refunds.

Most of the receipts of the Government, other than those deposited in the tax and loan accounts with financial institutions, are deposited in the Treasury account at Federal Reserve banks and branches. The Treasury Department draws upon these balances for its daily disbursements. As these balances become depleted, they are restored, in part, through additional receipts but largely by calling in (withdrawing) funds from the thousands of financial institutions throughout the country authorized to maintain tax and loan accounts.

The tax and loan accounts are used for collections of Federal income, social security, railroad retirement, and excise taxes and for proceeds of sales of savings bonds and other public debt obligations. They are maintained in about 14,000 incorporated banks and trust companies. The tax and loan account system permits the Treasury to collect the Government's receipts through financial institutions and to leave the funds in the financial institutions and to communities until such time as the Treasury needs the funds for its operations.

The original purpose of the tax and loan system was to promote the smooth functioning of the economy by reducing the impact of Government financial operations on the distribution and level of bank reserves and on the money markets. For this purpose, the Treasury kept approximately two-thirds of its operating cash in tax and loan accounts and the other one-third in the Treasury accounts at the Federal Reserve banks. A Treasury Department study completed in 1974 concluded that the earning value of tax and loan accounts balances, for which the Treasury received no interest, had risen substantially beyond the value of applicable services rendered by the bank, for which the Treasury paid no direct fee. Based upon the conclusions of the 1974 study, Treasury sought and obtained legislative authority to invest its excess operating cash on a short-term basis. In accordance with the authority provided by Public Law 95-147, the Treasury Tax and Loan Investment Program was implemented on November 1, 1978.

During the period October 1974 until implementation of the Investment Program, the Treasury followed a policy of maintaining balances in tax and loan accounts such that the aggregate value of the balances approximately equaled the aggregate value of compensable services rendered to the Treasury. This policy resulted in a sharp reduction in the level of tax and loan accounts balances (to less than one-third of the total cash balance) and a correspondingly sharp increase in Treasury balances in the Federal Reserve Banks. Under the new Investment Program, the Treasury will return to the policy of permitting funds representing tax and loan payments to remain on deposit, invested as short-term obligations with depositaries, until needed by Treasury to meet disbursement needs. Depositary financial institutions select the manner in which they will participate in the Program. Depositaries that wish to retain funds deposited in their tax and loan accounts in interest-bearing obligations participate under the Note Option. Depositaries that wish to remit the funds to the Treasury account at Federal Reserve banks and branches participate under the Remittance Option. Under the Program, the Treasury also pays financial institutions for services they render to the Government in connection with tax and loan accounts, accepting Federal tax deposits, and issuing and redeeming United States Savings Bonds.

Government checks drawn on the U.S. Treasury clear through banking channels against the available funds of the Treasury account in the Federal Reserve System. As indicated above, the tax and loan account balances are subject to immediate transfer to the available funds; therefore, these funds can also be considered available operating funds. The other assets of coin, currency, etc., for purposes of day-to-day operations are not considered as operating funds because these assets are not immediately available for transfer to the Treasury account in the Federal Reserve System.

Debt Management

As a means of providing sufficient funds available for disbursement, Article 1, Section 8, of the Constitution gives the Congress the power "to borrow money on the credit of the United States." The Congress has delegated that authority with wide discretionary powers to the Secretary of the Treasury, subject to the approval of the President for most types of securities. The only authority the Treasury now has to borrow from the public is provided by the Second Liberty Bond Act, as amended, which was initially enacted into law on September 24, 1917 (40 Stat. 288).

Since its inception, the Government has financed its activities in part with borrowed money. Until World War I, however, revenues over the years were approximately equal to expenditures so that the outstanding debt never exceeded $3 billion. Deficit financing during World War I increased the public debt to slightly in excess of $25 billion, but the balance outstanding was reduced to approximately $16 billion by 1930. Since then, however, the Government's activities have been financed from borrowings from the public on an increased scale.

The permanent limit on the amount of public debt obligations issued under the Second Liberty Bond Act, as amended, and the face amount of obligations guaranteed by the United States and not owned by the United States that may be outstanding at any one time was changed to $400 billion by the act of March 17, 1971 (31 U.S.C. 757b). However, this act provided a temporary limit of $430 billion for the period from March 17, 1971, to June 30, 1972. The temporary limit has been increased several times since, and the act of April 1, 1979, increased it to $830 billion through September 30, 1979.

At September 30, 1978, about 22 percent of the total public debt obligations outstanding and subject to the debt limitation was held by or for the account of Government agencies or trust and other custodial funds administered by the Government. Of the approximately $168 billion in public debt obligations held by such funds, the more significant holdings were as follows:

	(millions)
Civil Service Retirement Fund	$55,885
Federal Old-Age and Survivors Insurance Trust Fund	30,412
Federal Hospital Insurance Trust Fund	11,707
Highway Trust Fund	11,578
Unemployment Trust Fund	9,517
National Service Life Insurance	7,618
Federal Disability Insurance Fund	4,352
Federal Supplementary Medical Insurance Trust Fund	4,021
Airport and Airway Trust Fund	3,687
Employees Life Insurance Fund	3,016
Railroad Retirement Account	2,795

Although the investment of the funds in interest-bearing public debt obligations is expressly authorized by the Congress in each instance, the rates of interest which these investments shall yield are not always prescribed by the Congress.

In addition to the purchase authorizations, the Congress has authorized the payment of interest to certain other trust funds on the amount of their funds on deposit in the Treasury. The liability for these trust funds is not included in the public debt and is not subject to the debt limitation; the interest on these funds is paid from various permanent appropriations other than the appropriation for interest on the public debt. The approximately $500 million Indian Trust Fund balances and the $90 million in the Soldiers' and Airmens' Home Permanent Fund constitute the major items of this type.

The Federal Financing Bank (FFB) is a Government corporation under the general supervision of the Secretary of the Treasury established by the Federal Financing Bank Act of 1973 to coordinate and reduce the costs of public borrowings by Federal agencies and borrowers whose obligations are guaranteed by Federal agencies. To carry out this purpose, the act authorizes the bank to purchase obligations issued, sold, or guaranteed by Federal agencies with fund obtained by the issuance of bank obligations to the public or the Secretary of the Treasury.

The FFB's officers are Treasury officials, and its operations are conducted by Treasury employees who furnish services to the bank on a reimbursable basis. Except for an initial public offering of bills in 1974, the FFB has financed its lending by borrowing from the Secretary of the Treasury.

Since it began operations in 1974, the FFB has become the vehicle for financing most Federal agency direct borrowings, guaranteed loans, and asset sales. The major programs eligible for bank financing still not financed by the bank are Department of Commerce guaranteed ship mortgages, Department of Housing and Urban Development guaranteed tax-exempt housing and urban renewal notes and bonds, and Government National Mortgage Association guaranteed passthrough securities.

On September 30, 1978, FFB holdings of Federal and Federally backed obligations totaled $48.1 billion.

Government Banking

The Treasury Department acts as the Government's banker. The banking function is carried out by the Bureau of Government Financial Operations (BGFO). All monies collected by the Government are deposited to the credit of the U.S. Treasury account through a system of designated commercial depositary banks and Federal Reserve banks and branches. Commercial banks that are members of the Federal Deposit Insurance Corporation may be authorized to receive collections from Government officers and transfer the funds to the Treasury's account at the respective Federal Reserve bank or branch. Each Federal Reserve bank or branch, acting in its capacity as fiscal agent of the Government, also receives collections directly from Government offices for credit to the Treasury's account maintained at each bank or branch.

Each Federal Reserve bank and branch forwards a daily transcript of transactions in the Treasury account to the BGFO. Credits listed in these transcripts include internal revenue and customs collections; miscellaneous collections of other Government officers; sales of public debt securities; and deposits to the checking accounts of disbursing officers and Government corporations, including sales of corporations' securities. Charges listed in the transcripts include Government checks cashed and the necessary check data forwarded to the BGFO in Washington, D.C. for payment, redemptions and interest payments of public debt and Government corporation's securities, cashed postal money orders and food stamps coupons, and payment vouchers drawn against letters of credit. Increases and decreases to the Treasury tax and loan accounts (described in the Cash Management section of this chapter), categorized by group, also appear on this transcript.

Each Federal Reserve bank and branch also submits in a separate transcript a listing of deposits of public moneys made to the Treasury account at designated commerical depository banks in its district. The BGFO also receives transcripts of transactions directly from certain offices of the Treasury Department and from designated commercial depositories outside the continental United States and in foreign countries.

The Federal Reserve Bank of New York also submits a gold custody transcript to the BGFO. This transcript reflects increases and/or decreases in gold holdings, and the balance of gold held in custody. By issuing gold certificates to the Federal Reserve System against the gold balance, the Treasury may obtain available cash.

The transcripts from these various sources, with supporting documents, provide input to the bureau's Government-wide Accounting System.

As stated above, all Government checks except those issued to make payments in foreign currencies are drawn on the U.S. Treasury. The checks, when cashed, clear through commercial banks to Federal Reserve banks where necessary check data for payments and reconciliation are captured by high-speed reader/sorters on magnetic tapes and microfilm. The Federal Reserve banks store the checks and forward the tape and microfilm to the BGFO for payment and reconciliation.

In the Federal Government, checks are reconciled by the "banker" rather than by the office writing the checks. The check payment and reconciliation process is performed by the BGFO in Washington on electronic data processing equipment. Every disbursing office drawing checks on the Treasury reports each month the numbers and amounts of checks issued. This information is recorded in the electronic equipment. As the check data is received for payment, it is entered in the electronic equipment and matched against the issue information; information on the amount of checks outstanding is thus developed.

Microfilm copies of checks which match stop-payment orders are examined to determine whether payment should be refused. Checks which do not match the amount reported as issued by the disbursing office are given a detailed examination and, unless the difference represents an obvious alteration by the negotiators, the check is accepted for payment and a notice of discrepancy reported to the disbursing office for adjustment. If the difference represents an overpayment to the payee, the disbursing office must collect the overpayment and deposit the money in the Treasury's account. If an undercharge to an appropriation of fund is involved, an additional charge to the account must be processed. Check alterations or forgeries are referred to the Secret Service for investigation and, where identification of the wrongdoer is made, the case may be referred to the Justice Department for prosecution.

The BGFO receives claims for checks drawn on the Treasury's account which are reported lost, stolen, or not received. The check description is furnished by the disbursing officer, and stoppage of payment is placed in the computer system.

If the check is found to be paid, the original check is obtained from the Regional Federal Records Center where stored. When the check has been received, the endorsement appearing on the check is compared to the signature of the claimant on the letter. If the signatures do not match, a claim is forwarded to the claimant (who may be the payee or an endorser) for proper execution and return to the BGFO. If forgery is apparent, the case is referred to the U.S. Secret Service for an investigation and refund of the check proceeds is requested from the presenting bank. The BGFO may issue a settlement check before receipt of refund or before the investigation has been completed, if satisfied that the endorsement of the check is forged and the claimant is not involved in its negotiation.

If a stop payment action reveals that the original check is outstanding, the BGFO will authorize the issuance of a subtitute check to the claimant. In certain cases a bond with or without sureties will be required.

The stop-payment order remains in the system to intercept the original check should it come in for payment. This intercept action may occur before a substitute check has been issued. Whenever an intercept action occurs, the check is examined, together with the existing case file, to determine whether the check should be paid or declined. If the check appears to have been forged, claim forms are sent to the payee and a Secret Service investigation is requested.

The BGFO must take many types of actions in support of the check claims operation, including obtaining refund for double payments, referring difficult request-for-refund cases to the Attorney General for protection of the interest of the

Government, providing information in compliance with White House or Congressional requests, and furnishing photostatic copies of miscellaneous paid checks pursuant to requests from interested parties.

BGFO examines mutilated currency submitted for reimbursement and makes payment in accordance with regulations. This function is not performed at the Federal Reserve banks.

Treasury Central Accounting

The Treasury Department maintains a system of central accounts integrated into its Government-wide accounting system to provide a consolidated record of the Government's financial transactions and to meet its responsibility for reporting on the state of the Government's finances to the Congress and the public. These central accounts do not constitute an overall general ledger for all the Government's assets and liabilities. They do reflect the assets and liabilities of the United States to which receipts and expenditures and the Treasury's cash operations, including borrowings, are directly related. These accounts are posted monthly on the basis of: (1) reports from disbursing offices for the amounts of checks issued or cash payments made, the amounts of deposits made by the administrative agencies for which such offices disburse, and the related classification by account for the amounts of receipts and disbursement processed for the administrative agencies; and (2) transcripts from Federal Reserve banks, branches, and Treasury offices discussed earlier that reflect the amounts of deposits received in the U.S. Treasury account and the amount of cash paid out for checks drawn against the account. Subsidiary to the central accounts are the individual appropriation, fund, and receipt accounts to which are posted the appropriations or spending authorizations granted by the Congress and the reported expenditures and receipts.

Each month the Treasury Department prepares a statement of these individual accounts and transmits it to the administrative agency concerned to show the status (balance) of its accounts based on the cash receipts and disbursements data recorded in these accounts. These statements serve as reconciliation media with the agency's books, and the final fiscal year statement of the accounts is the basis for the official Combined Statement of Receipts, Expenditures and Balances of the United States Government issued by the Treasury Department. These same figures must also be used in agencies' budget presentations to the Congress. Also subsidiary to the central accounts are individual accounts for each disbursing office's outstanding checks and for deposits in transit to the U.S. Treasury account for agency accounting entities. Also subsidiary to the central accounts are individual accounts for each disbursing office's outstanding checks and for deposits in transit to the U.S. Treasury account for agency accounting entities.

Collection of Public Funds

Classification of Receipts

Receipts of the Government are classified in several different ways. They are broadly categorized as either governmental, proprietary, or intrabudgetary. Governmental receipts result from the sovereign rights of government e.g., various taxes and duties. Proprietary receipts result from the business type operations of agencies, e.g., sales of publications, licenses, or fees. Intrabudgetary receipts of various classes result when there is activity between Federal accounts.

Receipts are also classified as to type of fund. Receipts not earmarked by law for a specific purpose are classified as general fund receipts--these are primarily internal revenue taxes, customs duties, and a large number of miscellaneous receipts. These receipts are used to finance discretionary programs in the President's budget as approved by the Congress in the appropriation process. Receipts from specific sources earmarked by law to finance specified programs in the budget are classified as special fund receipts.

Receipts of the Government are also classified by sources. These are (1) internal revenue receipts, (2) alcohol and tobacco taxes, (3) customs receipts, and (4) miscellaneous receipts. Internal revenue receipts, alcohol and tobacco taxes, and customs duties are collected by the Treasury Department; miscellaneous receipts are collected usually by the agency most closely associated with the source of the revenue.

Tax and Customs Revenues

Responsibility for administration of internal revenue laws, except chapters 51, 52, and 53 of the Internal Revenue Code which are discussed below, is vested in the Internal Revenue Service in the Treasury Department. Collections are made on the basis of tax returns filed by the taxpayers (e.g., income taxes, estate taxes, and admission taxes) or through the sale of stamps (e.g., documentary stamps and stock transfer stamps). The funds collected are deposited by the collectors with Federal Reserve banks or general depositaries (commercial banks) for the account of the U.S. Treasury.

Income and social security taxes on wages and salaries are required by law to be withheld by employers. Regulations issued by the Treasury Department require that these withheld taxes be deposited by the employers for the Treasury's account with depositaries located throughout the country. The depositaries credit the Treasury's tax and loan account and report the collections daily to the nearest Federal Reserve bank.

Employers are required to file tax returns, reporting the total taxes withheld, with the Internal Revenue Service quarterly. The cash received by the collectors, like all their other collections, are deposited with a Federal Reserve bank or a general depositary for the account of the U.S. Treasury.

Responsibility for administration of chapters 51, 52, and 53 of the Internal Revenue Code (26 U.S.C.) relating to alcohol, tobacco products, and firearms, respectively, is vested in the Bureau of Alcohol, Tobacco and Firearms in the Treasury Department. These responsibilities include protecting the revenue on liquor and tobacco products as well as providing methods for collection of the taxes.

The taxes on distilled spirits, wine, beer, cigars, cigarettes, and cigarette papers and tubes are paid by a return system whereby the return and remittance are filed with the Internal Revenue Service. Special occupational taxes are also paid, by return, to the Internal Revenue Service, which then issues a special tax stamp to the taxpayer. These taxes represent the second largest revenue source.

The U.S. Customs Service in the Treasury Department is responsible for collecting general fund receipts, which include (1) duties on imports, (2) excise taxes, and (3) miscellaneous receipts and receipts other than general fund, which are made up of appropriation reimbursements and refunds, trust fund available receipts, and collections for other agencies. It is the third largest revenue-collecting agency of the Government. All customs collections are deposited by district directors with Federal Reserve banks or general depositaries for the account of the U.S. Treasury.

Miscellaneous Receipts

Miscellaneous receipts (e.g., miscellaneous taxes, fees for permits and licenses, proceeds from sales of Government property, rents and royalities, gifts and contributions, etc.) are collected usually by the agency most closely associated with the source of the revenue.

Trust Fund Collections

In addition to revenue receipts, monies are collected for credit to funds held in trust by the Government. Trust fund monies are paid to the Government as trustee in accordance with the terms of a trust agreement or statute. These receipts in some respects are similar to special receipts in that they are earmarked for specific purposes. Trust receipts, like miscellaneous receipts, are collected by the various departments and establishments of the Government. Major trust funds are: Civil Service Retirement Fund, Federal Old-Age and Survivors Insurance Trust Fund, Federal Disability Insurance Trust Fund, Federal Hospital Insurance Trust Fund, Federal Supplementary Medical Insurance Trust Fund, Highway Trust Fund, Airport and Airway Trust Fund, Railroad Retirement Account, Unemployment Trust Fund, Employees Life Insurance Fund, and the National Service Life Insurance Fund.

Disbursement of Public Funds

Except for the Department of Defense; the Panama Canal; U.S. Marshalls; and certain Government corporations, including the Postal Service; the Division of Disbursement in the BGFO disburses most of the funds for the executive departments of the Government. The disbursing functions for the excepted agencies and for most organizations in the Legislative and Judicial Branches are performed by their own disbursing offices.

The Treasury Disbursing Organization

The Division of Disbursement carries out its functions through 11 disbursing centers located in the principal financial centers in the United States and the Philippine Islands. The Division is headed by the Chief Disbursing Officer. Each disbursing center is headed by a regional disbursing officer who, although administratively responsible to the Chief Disbursing Officer, disburses funds in his own name.

In addition, payments are made by approximately 90 other disbursing officers and some 7,000 cashiers, all of whom are employees of other agencies but who, in disbursing public funds, operate under regulations issued by the Division of Disbursement. These other disbursing officers are used principally in the U.S. Coast Guard and the Department of the Interior and at foreign service posts of the State Department. The disbursing officers of the State Department also disburse for other civil agencies operating in foreign countries.

Cashiers are used in almost every agency of the Government to make small cash payments for purchase of supplies and certain service expenses. Cash is advanced to the cashiers by the disbursing office through which the agency submits its vouchers for payment. The advances are recorded as accountability items in the account of the disbursing officer making the advance. Reimbursement vouchers representing expenditures from the advance funds are submitted to the advancing disbursing office which reports the expenditures in its account and replenishes the cashier's funds.

Reporting Procedures

The procedures outlined here apply basically to all disbursing offices of the Government. Although two different procedures are used for reporting receipt and expenditure transactions, the entire system is dependent on certain basic documents establishing the accountability of the disbursing officer and classifying the transactions of the agencies.

The basic Treasury system in operation today is commonly called the SF 224 (Statement of Transactions) system. Under this system, all disbursing officers (with certain exceptions), operating under delegation of authority from the Chief Disbursing Officer, report, by eight-digit agency location code (ALC), the total amount of vouchers paid for each agency. This report is a supporting document to the disbursing officers' monthly accountability report (SF 1219, Statement of Accountability). Monthly, each agency location code served by these disbursing officers reports disbursments and collections classified according to appropriation, fund, or receipt symbol. These two reports are used in the central accounting system's reconciliation of agency receipts and expenditures and disbursing officers' accountability.

Disbursing officers not operating under the Division of Disbursement (i.e., Department of Defense, etc.) and the few that are under the Chief Disbursing Officer but are excepted from the SF 224 system, report transactions classified by appropriation, fund, or receipt symbols on the SF 1220 (Statement of Transactions). Under this concept, the total reporting for collections and disbursements is through the disbursing officer without separate reporting by the agency. Disbursing officers reporting in this manner also use the SF 1219 (Statement of Accountability). The exception to this are the U.S. disbursing officers who use the SF 1221 (Statement of Transactions-Foreign Service Account) and the SF 1218 (Statement of Accountability-Foreign Service Account).

The Statements of Accountability serve a dual purpose, being used by the central accounting system for reconciliation purposes and by GAO in settling disbursing officers' accounts. The Statements of Transactions when prepared by the disbursing officers are submitted to administrative agencies for reconciliation with their accounts, after which the statements and the supporting detailed accounting documentation are held by the agencies for use by GAO in its audit work.

Disbursing Office Accountability

Each disbursing office is under the supervision of an accountable officer in whose name the Statement of Accountability is rendered for the accounting period in which he serves. The official title of the officer may be: disbursing officer, regional or assistant disbursing officer, special disbursing agency, or U.S. disbursing officer. Items of accountability include cash on hand, advances made to agents (cashiers), undeposited collections of Government funds or unconfirmed deposits made to the account of the U.S. Treasury, check-issue discrepancies (overpayment of certified voucher amounts), etc.

The disbursing officer's accountability is increased by the amount of all checks drawn on the U.S. Treasury and all collections made. Accountability is decreased by the amount of all properly certified vouchers evidencing a charge to Government accounts supporting the checks drawn, and all confirmed certificates of deposit evidencing the deposit of collections credited to Government accounts.

In summary, the disbursing officer is held responsible for checks drawn on the Treasury for which there is no properly certified voucher and for any cash collected for credit to Government accounts which has not been deposited in the account of the U.S. Treasury.

Check Issue and Cash Deposit Procedures

Each disbursing office has a disbursing symbol number and a deposit symbol number. In some cases the office has additional disbursing symbols (checking accounts) due to the nature of the disbursing operation. The disbursing symbol number is preprinted and prepunched in all check stock to identify the disbursing office issuing the check and to serve the BGFO in the electronic reconciliation of the paid checks. The deposit symbol number is used in matching deposits claimed by the disbursing office with deposits credited in the Treasury's account.

The actual disbursing process is relatively simple. The disbursing office receives a schedule of payments which has been certified as proper for payment by the administrative agency. The schedule shows the appropriation or fund to which it is to be charged and the name or names of the payee or payees to whom the payment or payments are to be made. In most cases the disbursing office draws a check and mails it to the payee. The schedule is stamped by the disbursing office to show the date paid, the check number. and the disbursing office symbol number, and a copy is returned to the administrative agency to support its accounts. In the case of cash payments (normally made by cashiers), the signature of the payee must be obtained on the voucher, after which the voucher is used as support to the accounts.

An alternative to the use of checks is the Treasury's Direct Deposit/Electronic Funds Transfer Program (DD/EFT). This program is applicable to virtually all classes of Federal recurring payments including Social Security, Supplemental Security Income, Railroad Retirement, Veterans Administration Compensation and Pension, and Civil Service Retirement for which the payee has designated a financial institution to receive the amount directly to be deposited into the individual's bank account. The system also includes revenue sharing payments which are made quarterly. Using DD/EFT, the Treasury provides computer tapes that will automatically take funds from Government accounts and credit them to depositors at participating banks, eliminating the need for payments by check and therefore the dangers of loss or forgery.

The Department of the Treasury has established the Treasury Financial Communications System (TFCS), which provides the Treasury with the capability of making payments electronically through increases to the reserve accounts of member banks of the Federal Reserve System and corresponding decreases in the Treasury account. The system also processes receipts from member banks directed to the Treasury. By utilizing this interconnected banking network, the Government can receive payments originating from nearly any commerical bank within a matter of minutes. Since TFCS consists entirely of electronic transfers, checks and their accompanying collecting time are completely eliminated and the Government receives usable funds on the actual payment date. On the payments side, TFCS gives the Government absolute disbursement control through its ability to initiate and complete positive payment on actual due dates.

When the administrative agency utilizes the disbursing and reporting facilities of the Division of Disbursement the collection officer prepares the certificate of deposit showing the eight-digit agency location code and deposits the collection at a Treasury depositary for the account of the U.S. Treasury. Under this concept (i.e., the SF 224 system), neither the disbursing officer nor his accountability is involved in collection transactions. In the case when the disbursing officer prepares the statement of transactions, either the disbursing officer or the collection officer of the involved agency prepares the certificate of deposit and makes the deposit to the credit of the disbursing officer's symbol with an appropriate Treasury depositary.

Production of Money

U.S. money consists of coin and paper currency. The sole power to coin money is vested in the Congress by the Constitution, and, though not expressly stated in the Constitution, the courts have held that the Congress also has the incidental or implied power to issue paper currency. The states are expressly forbidden by the Constitution either to coin money or to issue paper currency.

The nation's money is manufactured by the Treasury Department through the Bureau of the Mint, which produces coins, and the Bureau of Engraving and Printing, which produces paper currency. New coins are struck at the Bureau of Mint's facilities in Philadelphia, Denver, and San Francisco. Paper currencies are produced by the Bureau of Engraving and Printing in Washington, D.C.

All paper currency and coin go into and out of circulation through the Federal Reserve banks or their branches.

Coin

The coins currently authorized by the Congress to be issued by the Treasury Department are dollars, half dollars, quarters, dimes, nickels, and pennies.

Since the passage of the Bank Holding Company Act of December 31, 1970 (Public Law 91-607), all dollars, half dollars, quarters, and dimes produced for regular circulation have been three-layer composite coins with an outer cladding of 75 percent copper and 25 percent nickel bonded to a core of pure copper. Coins for regular circulation contain no silver.

Since the face value of the coins minted is greater than the cost of the metals contained in the coins, a gain accrues to the Government. This gain, which results from the Government's sovereign right to coin money, is called seigniorage. Seigniorage on coins manufactured during fiscal year 1978 amounted to $367 million.

Paper Currency

Federal Reserve notes and U.S. notes are the only two kinds of paper currency notes now being produced.

Federal Reserve notes are issued by the Federal Reserve banks under Government auspices in denominations of $1, $2, $5, $10, $20, $50, and $100. On July 14, 1969, the Treasury Department discontinued the issuance of currency in denominations of $500, $1,000. $5,000, and $10,000.

Federal Reserve notes are obligations of the United States and are a first lien on the assets of the issuing Federal Reserve bank. In addition, they are secured by a pledge of collateral equal to the face value of the notes. This collateral must consist of the following assets: (1) gold certificates, (2) Special Drawing Right certificates, (3) U.S. Government securities, or (4) "eligible paper" as described by statute. Federal Reserve notes constitute over 99 percent of the total paper currency in circulation.

U.S. notes, which make up less than one percent of the circulating currency, are now being printed only in $100 denominations. The amount of U.S. notes outstanding must, by law, be maintained at $322,539,000. Notes redeemed are immediately reissued by the Treasury Department in denominations of $100. In March 1968 the gold reserve of $156 million required to be held by or for the account of the U.S. Treasury to back these notes and Treasury notes of 1890 was removed by Public Law 90-269.

A few other former issues of currency are still in circulation but are being gradually retired as they are received in the Treasury Department. The following table shows the amount of each type of paper currency in circulation as of September 20, 1978.

Current issues:	
U.S. notes	$ 313,485,000
Federal Reserve notes	96,566,191,000
Discontinued issues:	
Federal Reserve note (issued before July 1, 1929)	641,000
Federal Reserve bank notes	48,455,000
National bank notes	19,542,000
Gold certificates	3,338,000
Silver Certificates	207,127,000
Treasury notes of 1890	8,000
	$97,158,787,000

FUNCTIONS ASSOCIATED WITH THE FINANCIAL REPORTING SYSTEM

Responsibility for developing the Government's financial reporting system was vested in the Secretary of the Treasury by section 114 of the Budget and Accounting Procedures Act of 1950, which provides, in part, that:

> "The Secretary of the Treasury shall prepare such reports for the information of the President, the Congress, and the public as will present the results of the financial operations of the Government: Provided, that there shall be included such financial data as the Director of the Bureau of the Budget may require in connection with the preparation of the Budget or for other purposes of the Bureau. Each executive agency shall furnish the Secretary of the Treasury such reports and information relating to its financial conditions and operations as the Secretary, by rules and regulations, may require for the effective performance of his responsibilities under this section.

The principal financial reports prepared by the Treasury Department which relate to the operations of the Government as a whole are:

1. Daily Treasury Statement.

2. Monthly Statement of the Public Debt of the United States.

3. Monthly Treasury Statement of Receipts and Outlays of the United States Government.

4. Annual Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government.

The content and purpose of these and other reports are set forth in Appendix B.

THE FEDERAL RESERVE SYSTEM

The Federal Reserve banks and the Federal Reserve Board are components of the Federal Reserve System, which was established under the act of December 23, 1913 (the Federal Reserve Act, 12 U.S.C. 221).

The stated purposes of this act were:

1. To provide for the establishment of Federal Reserve banks.

2. To furnish an elastic currency.

3. To afford means of rediscounting commercial paper.

4. To establish a more effective supervision of banking in the United States.

The System consists of:

1. The Board of Governors. The supervisory body consisting of seven members appointed by the President and confirmed by the Senate.

2. The Federal Open Market Committee.

3. The Federal Advisory Council.

4. 12 Federal Reserve banks and 25 branches.

5. 5,600 member banks consisting of all national banks and such State banks and trust companies as have been admitted.

In addition to exercising supervision of the Federal Reserve banks and member banks, the Federal Reserve Board determines general monetary, credit, and operating policies for the System as a whole and formulates the rules and regulations necessary to carry out the purposes of the Federal Reserve Act.

Federal Reserve banks act as depositaries of public funds and as fiscal agents of the U.S. Treasury in connection with:

1. Collection of income, social security and other taxes withheld or required to be paid by employers.

2. Issuance and redemption of public debt securities.

The Federal Reserve banks and branches are authorized to verify (as to genuineness, kind, value, and number of pieces) and destroy currencies in all denominations below $500 that become worn and no longer fit for general use under procedures prescribed by the Treasury Department. Federal Reserve notes in denominations of $500 and above are canceled with distinctive performations and cut in half lengthwise. The lower halves are shipped to the Treasury Department in Washington, D.C., where they are verified and destroyed. The upper halves are retained at the Federal Reserve banks and destroyed after the banks are notified by the Treasury Department that the lower halves have been verified.

For further information on the organization and functions of the Federal Reserve System, reference to the following is recommended:

1. "United States Government Organizational Manual."

2. "The Federal Reserve System--Its Purposes and Functions" (published by the Board of Governors.)

3. "A Day's Work at the Federal Reserve Bank of New York" (a pamphlet published by the Federal Reserve Bank of New York.)

PRINCIPAL FINANCIAL REPORTS PREPARED AND PUBLISHED BY THE TREASURY DEPARTMENT

DAILY TREASURY STATEMENT

The Bureau of Government Financial Operations (BGFO) is responsible for preparing the Daily Treasury Statement. Basically, this statement is a report of transactions affecting the operating cash balance account of the U.S. Treasury, and shows an analysis of Public Debt transactions.

MONTHLY TREASURY STATEMENT OF RECEIPTS AND OUTLAYS OF THE UNITED STATES GOVERNMENT

Treasury also publishes a monthly statement of receipts and outlays reflecting the budget surplus or deficit. Receipts and repayments are reported on the collections-received basis by administrative, disbursing, or collecting organizations. Outlays are reported on the basis of checks issued and cash payments made except for public debt interest, which is reported on the basis of interest accrued.

Final Year-end Statement

The regularly monthly statement for the last month of the fiscal year is entitled "Final Monthly Treasury Statement of Receipts and Outlays of the United States Government." It is issued approximately 20 days after September 30 of each year and contains the final figures showing budget results for the fiscal year. This statement is used by the Secretary of the Treasury and the Director of OMB to announce the receipts, outlays, and budget surplus or deficit for the fiscal year. The statement is, in effect, a summarization of receipt and outlay data included in the annual Treasury Combined Statement of Receipts, Expenditures and Balances.

ANNUAL TREASURY COMBINED STATEMENT OF RECEIPTS, EXPENDITURES AND BALANCES OF THE UNITED STATES GOVERNMENT

The annual Treasury combined Statement of Receipts, Expenditures and Balances of the United States Government is prepared by the BGFO. This statement is prepared in compliance with section 15 of the Act of July 31, 1894, 31 U.S.C. 1029, which provides that:

> "It shall be the duty of the Secretary of the Treasury annually to lay before Congress, on the first day of the regular session thereof, an accurate combined statement of the receipts and

expenditures during the last preceding fiscal year of all public moneys*** designating the amount of receipts, whenever practicable, by ports, districts, and States, and the expenditures, by each separate head of appropriation."

The statement is prepared in book form and contains an explanatory foreword, an index, and various tabulations of financial data segregated into five major parts.

Part one contains three summary statements representing the Federal Government's balance sheet, statement of receipts and outlays, and financial statement. These summary statements are followed by related schedules supporting such items as:

1. Analysis of monetary assets with the International Monetary Fund.

2. The public debt.

3. Agency securities issued under special financing authorities.

4. Federal securities held as investments of Government accounts.

5. Accountability for cash and other assets held outside the Treasury account by disbursing, collecting, and other fiscal officers.

6. Other U.S. Treasury monetary assets.

Part two contains the detail of internal revenue, customs, and miscellaneous receipts for the fiscal year as follows:

1. Receipts by source and categories.

2. Receipts by organizational unit.

3. Federal individual income and FICA taxes clearing accounts, budget clearing account (suspense), and other receipt clearing accounts.

4. Capital transfers.

5. Customs collections of duties by districts and ports.

6. Internal revenue receipts by states and districts.

Part three contains detailed statements of appropriations, outlays, and balances for the fiscal year divided into three sections: (1) budget expenditure accounts (2) deposit fund accounts and (3) summary of budget authority, appropriations, outlays, and balances.

Part four contains miscellaneous informational tables on appropriations and authorizations, the public debt, and status of special and trust fund receipts.

Part five contains information pertaining to the status of each foreign currency account for currencies acquired by the U.S. Government without payment of dollars and by other means.

The foreign countries are classified as excess-currency countries, near-excess-currency countries, and non-excess-currency countries.

The financial tabulations in parts one, two, and three are prepared from the central revenue, expenditure and appropriation accounts of the U.S. Government maintained by the BGFO and other related information reported by all Government agencies.

The tables and other financial data in parts four and five are based on information obtained from various organizations both within and outside the Treasury Department.

OTHER OVERALL FINANCIAL REPORTS

The Treasury Department regularly publishes, in addition to the statements previously described, the following reports containing overall financial information:

Annual Report of the Secretary of the Treasury on the State of Finances

This report, which is issued in compliance with the act of September 2, 1789, as amended, 31 U.S.C. 1027, is prepared by the BGFO. It is published in book form and includes administrative reports of the bureaus and divisions of the Treasury Department; discussion of tax, monetary, and other fiscal developments during the year; and tables dealing with the public debt and actual and estimated receipts and expenditures of the Government. Most of the data on the public debt and receipts expenditures is based upon information previously published in other Treasury Department publications. Many of the tables in the annual report contain data for a number of preceding years.

Monthly Treasury Bulletin

The BGFO also prepares the Treasury Bulletin. This publication is issued monthly and contains many tables relating to the public debt and receipts and expenditures of the Government based on information contained in the Monthly and Daily Treasury Statements. In addition, the Bulletin has many tables dealing with ownership of Government bonds, sales and retirements, prices and yields of Government securities, internal revenue statistics, monetary statistics, and capital movements between the United States and foreign countries. The statements of financial condition and income and retained earning submitted by Government corporations and certain unincorporated agencies are published in the Bulletin periodically.

Foreign Currency Reports

Pursuant to section 1415 of the Supplemental Appropriation Act, 1953, approval July 15, 1952 (66 Stat, 662), Executive Order No. 10488, dated September 23, 1953, as amended, and Treasury Circular No. 930, Revised, dated June 8, 1978, data is compiled in connection with the acquisition and use of foreign currencies by the U.S. Government. Periodic reports covering the collections, withdrawals, and balances of foreign currencies are prepared by the BGFO. These reports identify the collections and withdrawals by country and program, stated in U.S. dollar equivalent, and also show the balances in units of foreign currency. In the Annual Combined Statement, a separate section of foreign currency accounts is included as part five showing the detail of activities and balances in the accounts of the Secretary of the Treasury, as well as agency account.

Consolidated Financial Statements

Since 1975, the Treasury Department, in cooperation with several Government agencies, has been developing Consolidated Financial Statements for the Federal Government. This experimental application of accrual accounting to the measurement of Government finances, has as its objectives:

--The improvement of accounting at all levels of Government: Federal, State, and local;

--The development of accounting standards for public financial reporting by government entities; and

--The integration of governmental accounting standards with accounting standards applicable to the private sector.

To date, three prototype statements have been issued (FY 1975, FY 1976, and FY 1977). Treasury is continuing its efforts to improve reporting of financial data in consolidated financial statements.

FINANCIAL REPORTING REGULATIONS AND REQUIREMENTS

MAJOR REPORTING REGULATIONS

OMB Circulars

No. A-34-- Prescribes reports to be submitted by executive agencies relating to apportionments and budget status.

NO. A-11-- Provides instructions for the preparation and submissions of annual budget estimates by the executive agencies.

Treasury Department Regulations

Treasury Fiscal Requirement Manual--Provides procedures to be observed by departments and agencies in relation to Government-wide fiscal responsibilities of the Treasury Department. These include central accounting, reporting, payrolls, deductions, withholding, disbursing, deposit regulations, and other fiscal matters. Specific reports prescribed in the Treasury Fiscal Requirements Manual include:

1. Reports relative to foreign currencies acquired by the Government without payment of U.S. dollars (I TFRM 2-3200).

2. Business-type financial statements relating to operations and financing activities of the Government to be submitted to the Department of the Treasury and OMB (I TFRM 2-4100).

3. Annual reports serving as the Treasury's preclosing trail balance of the central appropriation and fund accounts, the agencies' request for transfers and withdrawals, and the agencies' analysis of available appropriations and funds (I TFRM 2-4200).

4. Reports regarding contracts entered into or other obligations incurred prior to appropriations for the payment of such obligations (I TFRM 2-6100).

5. Reports to be used for reporting Federal aid payments to state and local governments (I TFRM 2-7000).

6. Reports to be used for reporting joint funding transactions of Federal assistance programs (I TRFM 6-7000).

Federal Account Symbols and Titles

This document is updated on an annual cycle as part of the appropriation process. It contains the following parts:

Part I - Receipt Account Symbols and Titles--contains a list of receipt account symbols and titles by fund groups and major classes. The fund groups are separated into general fund, special funds, and trust funds. The major classes are (1) Government receipts, such as taxes, customs duties, gifts, and contributions, (2) proprietary receipts, such as fees charged for services, and (3) interbudgetary transactions such as interest on investments.

Part II - Appropriation and Other Fund Account Symbols and Titles--contains a list of appropriation and other fund account symbols and titles showing general, revolving, special, deposit, and trust accounts by agency.

Part III - Foreign Currency Accounts Symbols and Titles--contains foreign currency account symbols and titles assigned for use in accounting and reporting for receipts, disbursements, sales for dollars, and balances of foreign currencies originally acquired by the U.S. Government without payment of dollars, and for currencies held in trust.

A copy of this publication is of particular value in any review of the appropriation structure of a particular agency.

FINANCIAL REPORTS RELATING TO INDIVIDUAL AGENCIES

A wide variety of financial reports are prepared by individual Government agencies to cover their own operations; many of these reports are required by specific legislation. Because these reports are so numerous and varied and are constantly changing, it is not practical to include a comprehensive list of them.

The Clerk of the House of Representatives is required each year to annually prepare a list of the "reports which it is the duty of any officer or department to make to Congress." This listing is printed as a House document and sets forth by agencies the nature and frequency of reports required and citations to the applicable laws requiring them.

CHAPTER 3

FUNCTIONS OF THE OFFICE OF PERSONNEL MANAGEMENT

INTRODUCTION

This chapter describes the authority, organization, and primary functional responsibilities of the Office of Personnel Management (OPM). OPM was created by Reorganization Plan No. 2 of 1978 and the Civil Service Reform Act.

The Civil Service Act of 1883 created a competitive service based on merit, as determined in open and competitive examinations, and the Civil Service Commission administered the Act. Subsequent legislation broadened the Commission's responsibilities across the spectrum of Federal personnel management. The Intergovernmental Personnel Act of 1970 added a role in intergovernmental cooperation through grants and training, to assist in strengthening the personnel resources of State and local governments.

The combined effects of the Civil Service Reform Act and Reorganization Plan No. 2 are intended to improve government efficiency and to balance management authority with employee protections, through a reconfigured organizational structure. The functions of the former U.S. Civil Service Commission, therefore, have been divided between two new agencies--an Office of Personnel Management and an independent Merit Systems Protection Board.

ORGANIZATION OF OPM

Under a director, the OPM administers its responsibilities through a central office headquarters and regional and area offices in the field. The area offices are located at major centers of population and Federal employment. The Director oversees OPM's operating and staff activities, and provides Government-wide leadership in personnel administration. The following charts show the organization of the OPM and the geographic territories assigned to its regional offices.

PRINCIPAL FUNCTIONS

The Office categorizes its principal functions, for budgeting purposes, under fourteen activities:

1. Staffing Systems and Services

2. Compensation, Retirement, and Insurance
3. Work Force Effectiveness and Development
4. Agency Relations
5. Agency Compliance and Evaluation
6. Executive Personnel and Management Development
7. Affirmative Employment Programs
8. Labor-Management Relations
9. Intergovernmental Personnel Programs
10. Voting Rights
11. Presidential Commissions
12. Executive Direction
13. General Administration
14. Mandatory Payments

1. <u>Staffing Systems and Services</u>

Staffing the competitive service includes programs to:

a. Control and oversee recruiting, examining, and selection procedures delegated to the departments and agencies, to protect against prohibited personnel practices and the use of unsound management practices.

b. Conduct nationwide recruiting and examining to staff positions in the competitive civil service at and below the grade of GS 15.

c. Provide lists of the best qualified candidates to fill positions, in response to requests from appointing officers in the Federal agencies, through competitive selection based on nationwide recruiting and examining.

d. Develop and maintain qualifications standards and job-rating standards for determining pay levels.

e. Research and validate selection methods.

f. Manage the Government-wide merit promotion program.

g. Conduct checks and inquiries as required by law on persons entering the Federal service; conduct background investigation, for security purposes, of applicants for or employees of certain agencies, as required by law or as requested by the agencies; and evaluate implementation of the Government-wide security program.

2. <u>Compensation, Retirement, and Insurance</u>

The organization has programs to:

a. Maintain and evaluate the Federal compensation systems, including pay, leave, retirement, insurance, and benefits systems; incentive and performance pay guidelines; and perform pay comparability surveys.

b. Establish and maintain occupational structures.

c. Administer the Civil Service Retirement Act, the Panama Canal Construction Annuity Act, and the Lighthouse Service Widows Annuity Act.

d. Administer the Federal Employees Group Life Insurance Act.

e. Administer the Federal Employees' Health Benefits Act and the Retired Federal Employees' Health Benefits Act.

3. <u>Work Force Effectiveness and Development</u>

To help assure the effectiveness of employees, the Office conducts programs to:

a. Improve employee and organizational productivity, and the quality of work life.

b. Provide for Government-wide occupational health and medical activities.

c. Develop and implement methods for conducting employee relations, maintaining employee discipline, and evaluating individual and organization performance.

d. Administer the Government Employees' Incentive Awards Act.

e. Provide for nationwide training activities designed to develop and retain a skilled and effective work force.

f. Provide a management consulting resource for Federal agencies.

4. Agency Relations

Through its agency relations program, the Office seeks to assure a positive and constructive response to agency needs and problems.

5. Agency Compliance and Evaluation

To measure the effectiveness of OPM programs as implemented by the agencies, the Office:

a. Evaluates personnel management in the agencies; fosters personnel management evaluation in the agencies; and evaluates the agency evaluation programs.

b. Designs, prescribes, and maintains information systems in support of personnel functions.

c. Negotiates and monitors delegation agreements with agencies.

6. Executive Personnel and Management Development

For the Senior Executive Service (SES), managers at GS 16 through Executive Level IV and their equivalents in the executive branch, and all other positions at GS 16 and above, the OPM:

a. Manages the SES, including classifying positions, reviewing and approving qualifications, and controlling the number of positions; or, where appropriate, reviewing agency performance of these functions.

b. Manages the Administrative Law Judge program.

c. Provides for executive development and training through guidance and the conduct of training.

7. Affirmative Employment Programs

The Office provides equal employment opportunity leadership to Federal employees, including minority, women, and hispanic employment; special emphasis program coordination; upward mobility; and employment of veterans and the handicapped.

8. Labor-Management Relations

OPM provides policy leadership to agencies in labor-management relations, maintains a registry of labor agreements in the Federal service, and conducts liaison with appropriate labor organizations.

9. Intergovernmental Personnel Programs

The OPM has programs to:

a. Administer the awarding of grants to strengthen State and local management capacity and provide training to employees.

b. Provide and coordinate technical assistance in personnel administration.

c. Authorize temporary personnel mobility between the Federal government and State and local governments, colleges, and universities.

d. Foster cooperative recruiting and examinings.

e. Admit State and local employees to Federal training courses.

f. Manage the Presidential Management Intern program.

10. Voting Rights

The Office provides voter eligibility examination, observer, and listing data services under the Voting Rights Act of 1965.

11. Presidential Commissions

The OPM provides:

a. Administrative support to the President's Commission on Personnel Interchange under Executive Order No. 11451.

b. Support for the President's Commission on White House Fellowships.

12. Executive Direction

This activity includes:

a. Coordination of personnel management research and demonstration projects.

b. Operation of a program to avoid, or identify and correct, conflicts of interest in the Federal Government.

NATURE OF OPERATIONS

Under its regulatory responsibilities, the OPM has an obligation to guide Federal agencies by issuing rules, regulations, and instructions and following up on compliance through evaluations and audits.

The Office has decentralized to a large degree to respond to the audiences it serves. The ten regional offices and area offices, like the central office, are heavily involved in serving the public, State and local governments, and the Federal establishment, in such areas as recruiting and examining, equal employment opportunity, personnel management evaluations and assistance, training, occupational health, labor-management relations, and the like.

GUIDELINES

The OPM publishes the Federal Personnel Manual as the basic guide to Federal agencies in conducting their personnel management programs. This includes the policies, principles, standards, and criteria implementing the various laws and Executive orders and the applicable rules, regulations, and procedural instructions which agencies must follow. The manual also identifies the reporting requirements levied on the agencies by the Office.

Regulations issued by the OPM on Federal pay and leave form the basis for agency payroll operations. The Federal Personnel Manual incorporates many Comptroller General decisions on Federal pay matters as clarification of the regulations and procedures.

A grants manual provides instructions to State and local governments on how to qualify and apply for grants under provisions of the Intergovernmental Personnel Act.

FINANCIAL PROGRAMS

The OPM administers four programs which are primarily financial in nature--the retirement, life insurance, and health benefits programs for Federal employees, and the grants program to strengthen the personnel resources of State and local governments.

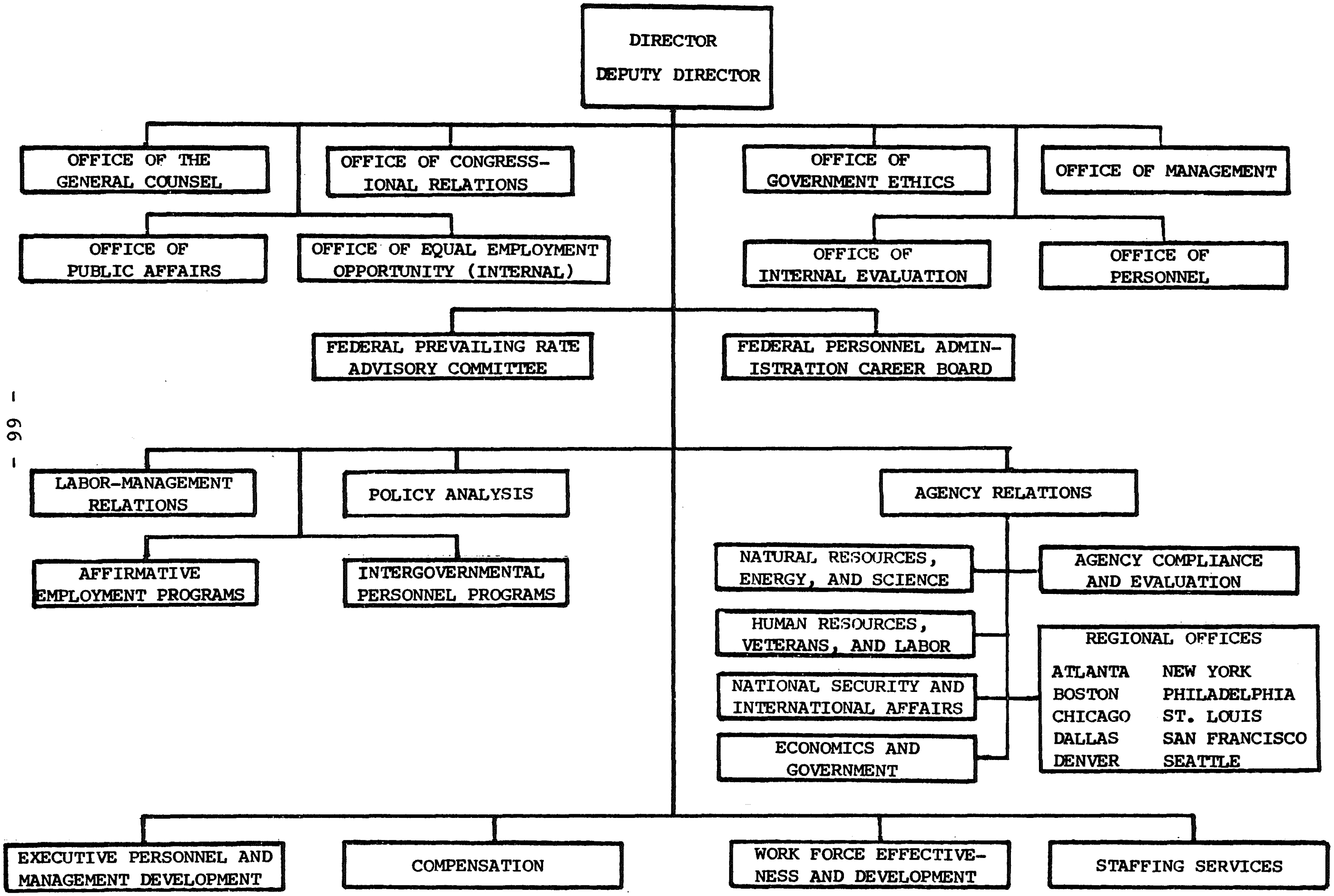
The Civil Service Retirement Law (5 U.S.C., Chapter 83) authorizes the Office to administer the program for retirement. Financial transactions include: (1) the receipt of retirement deductions from employees and Members of Congress plus an equal amount from the respective agency appropriations or funds used for payment of the payroll; and (2) the payment of annuities to retirees and survivors, or the refund of retirement deductions to former employees who elect to withdraw them and are not eligible for an annuity. The Office makes an annual reconciliation between agency accounts of retirement deductions and the receipts collected by the OPM, through the Annual Summary Retirement Fund Transactions Report (Standard Form 2807-2), prepared by each agency.

The OPM provides financial control and general administration for group life insurance and group accidental death and dismemberment insurance under the Federal Employees' Group Life Insurance Act of 1954 (now 5 U.S.C., chapter 87). Agencies must determine eligibility for coverage; withhold from employees' pay; remit withholdings and contributions to the OPM; and maintain records and controls which comply with the principles and standards prescribed by the Comptroller General. The Office of Federal Employees' Group Life Insurance, the administrative office in New York City which represents the insurance companies underwriting the group insurance program, has the administrative responsibility for settling claims.

The Government sponsors a program of health benefits for Federal employees under the Federal Employees' Health Benefits Act (5 U.S.C., chapter 89) and for retired Federal employees under the Retired Federal Employees Health Benefits Act. Employees and retired employees and their dependents have a choice of health plans. The Government contributes to the cost of providing the benefits and the employee or retired employee pays the remainder. The Office of Personnel Management negotiates contracts annually with the carriers of the various plans.

Under the grants program, the OPM assists State and local governments in implementing personnel programs consistent with merit principles; helps improve personnel administration; and promotes training for administrative, professional, and technical personnel. Grantees may use the money for: personnel administration improvements; training certain employees; Government service fellowships; or any combination of these. OPM normally makes awards for a 12-month period, or less; however, projects may be multiyear. The Office may make payments on a letter-of-credit, an advance payment, or a reimbursable basis. To the maximum extent possible, OPM relies on State and local government accounting, audit, and other internal control systems to insure financial accountability.

OFFICE OF PERSONNEL MANAGEMENT



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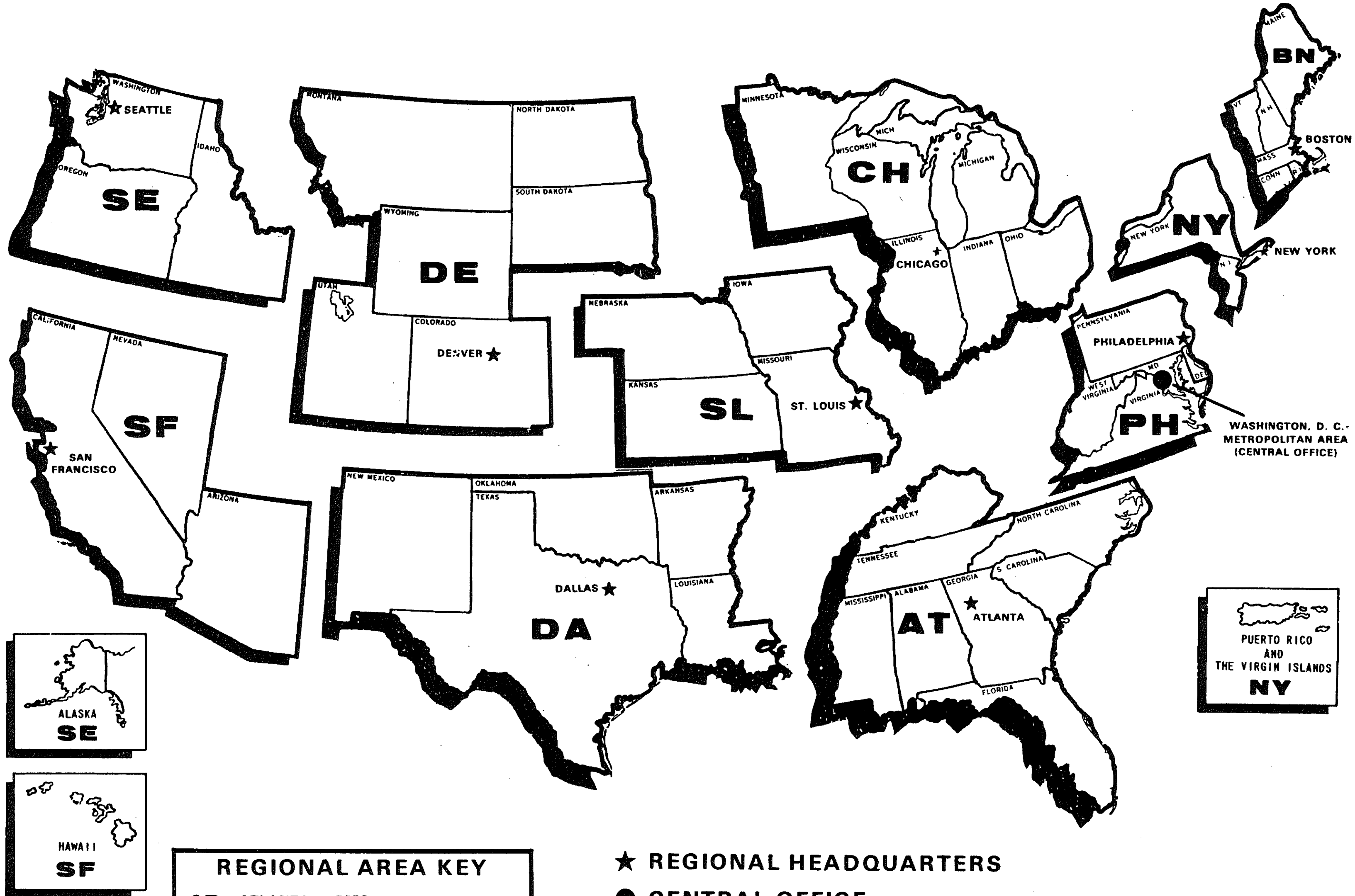
OFFICE OF PERSONNEL MANAGEMENT REGIONS



REGIONAL AREA KEY

AT - ATLANTA	**NY** - NEW YORK
BN - BOSTON	**PH** - PHILADELPHIA
CH - CHICAGO	**SE** - SEATTLE
DA - DALLAS	**SF** - SAN FRANCISCO
DE - DENVER	**SL** - ST. LOUIS

★ REGIONAL HEADQUARTERS

● CENTRAL OFFICE

EFFECTIVE JULY 1, 1971

CHAPTER 4

THE GENERAL SERVICES ADMINISTRATION

INTRODUCTION

The General Services Administration (GSA) was established July 1, 1949, to provide a wide variety of property management and related services for the Government. The Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471), which created GSA, stemmed from recommendations contained in the first Hoover Commission report and other studies aimed at bringing about improvements and economies in property management practices.

The Act consolidated functions formerly assigned to various agencies and vested in the Administrator of General Services, broad powers to organize and manage the affairs of GSA. The administrator, subject to the direction of the President, directs the execution of all functions assigned to GSA by the Act, as amended, by other laws, and by reorganization plans of the President, to provide for their effective accomplishment.

ORGANIZATION OF GSA

GSA is organized into seven services, two staff offices, and supporting offices reporting to the Administrator of General Services. The organizational responsibilities for the administration of GSA are presently divided into three basic tasks and assigned as follows:

1. Overall direction, administration, and program and policy control is held by the Administrator with the assistance of the Deputy Administrator and supporting offices to include: the Office of Inspector General, the Office of Acquisition Policy, the Office of Congressional Affairs, the Office of Public Affairs, and the immediate Office of the Administrator.

2. Staff services are provided by the Office of Controller-Administration and the Office of General Counsel.

3. Program operations are assigned to seven services: the Public Buildings Service, the Federal Supply Service, the National Archives and Records Service,

the Automated Data and Telecommunications Service, the Federal Property Resources Service, the Transportation and Public Utilities Service, and the Federal Preparedness Agency.

Responsibility and authority in connection with their functional areas have been assigned to the heads of these organizational elements. Exercise of these responsibilities and authorities is subject to the limitation that the ultimate responsibility and authority rest with the Administrator.

An organization chart of the GSA Headquarters Office, located in Washington, D.C., and a chart of GSA's 10 regional office locations and boundaries follow. The organizational structure of each regional office generally parallels that of GSA Headquarters with the Regional Administrator responsible to the Administrator for the overall direction and administration of his office.

The program responsibilities assigned to the major organizational elements of GSA are summarized below. These functional assignments of responsibility provide an insight into the various activities performed by GSA and its relationship to the rest of the Government.

PUBLIC BUILDINGS SERVICE

The Commissioner, Public Buildings Service, is responsible for programs and activities of GSA relating to the:

1. Planning of space and facility needs for the Government.

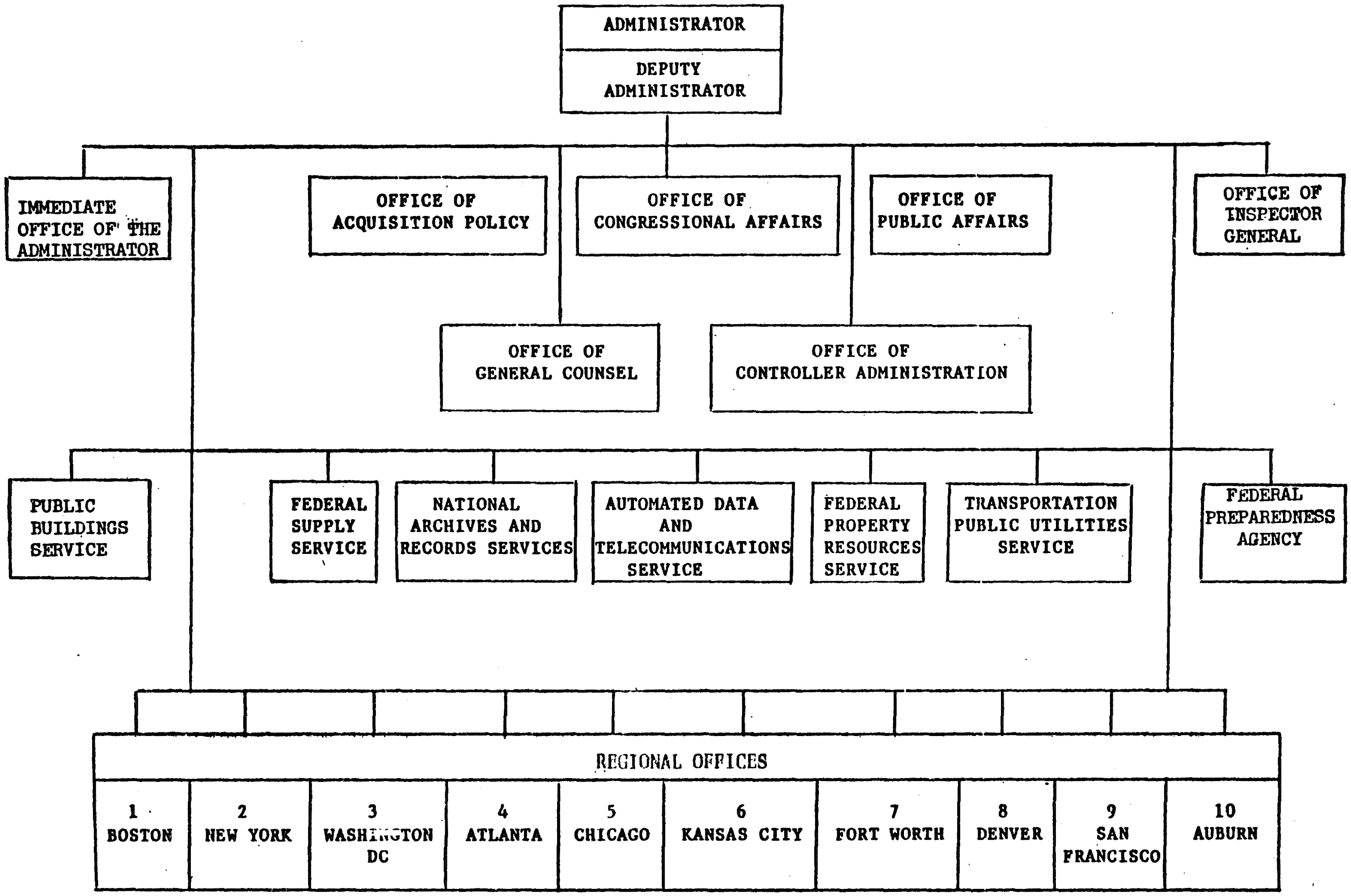
2. Acquisition and custody of real property.

3. Management of public buildings and other real property, including their operation, maintenance, protection and the assignment of space therein.

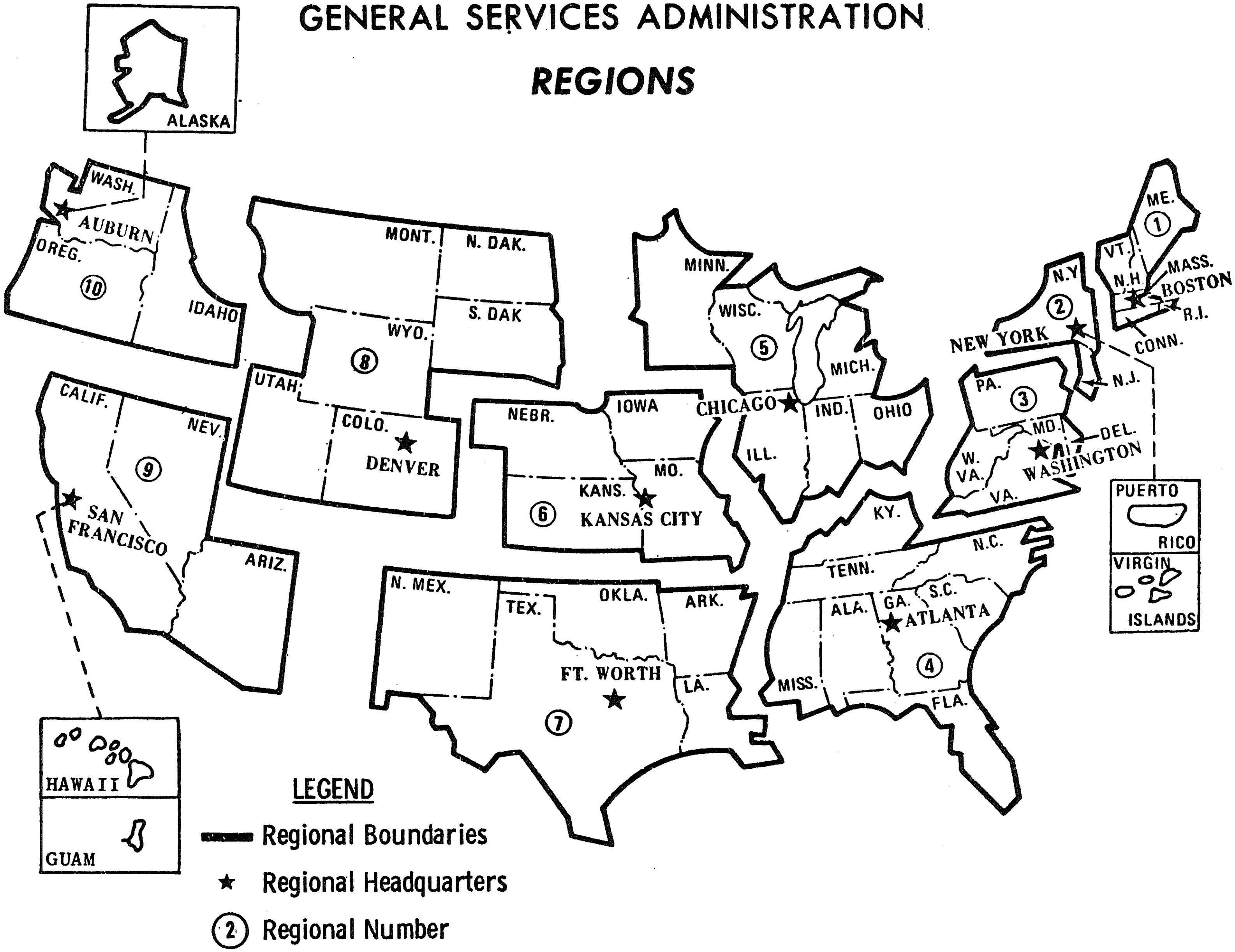
4. Physical transfer of furnishings and equipment involved in the assignment and reassignment of space.

5. Design, construction, alteration, extension, remodeling, repair, and preservation of Government owned or leased buildings.

GENERAL SERVICES ADMINISTRATION



GENERAL SERVICES ADMINISTRATION
REGIONS



6. Promotion of economy in the utilization of space occupied by Federal agencies.

7. Promotion of environmental and cultural considerations in the construction of public buildings.

8. Other duties of a management nature relating to Government owned or controlled real property.

FEDERAL SUPPLY SERVICE

The Commissioner, Federal Supply Service, is responsible for the following programs:

1. Development of Government-wide programs, regulations, and other instructions relating to inventory management; purchasing and contracting; warehousing and distribution; quality control; commodity standardization.

2. Assistance to Federal agencies in all phases of supply management, including the integration of agency supply operations with those of Federal Supply Service into a Federal supply system.

3. Development and execution of operational programs relating to inventory management, purchasing and contracting, quality control of materials procured, storage and distribution of common-use items of supply and commodity standardization.

4. Operation of a nationwide supply system whereby common-use commodities and services are sold to Federal agencies (1) from supply depot stocks or (2) by direct delivery from suppliers, whichever is more economical.

5. Development of plans, programs, policies, and systems to insure continuity of supply during periods of military mobilization.

NATIONAL ARCHIVES AND RECORDS SERVICE

The Archivist of the United States is responsible for the nationwide GSA activities relating to the:

1. Operation of the National Archives.

2. Operation of Presidential libraries.

3. Filing and publication of Federal rules, law, and constitutional amendments and servicing in connection therewith.

4. Operation of Federal Archives and Records Centers throughout the country.

5. Promotion and coordination of records management in Federal agencies.

6. Direction and administration of the Government-wide interagency reports programs and the standard and optional forms programs.

7. Operation of NARS educational programs to promote and publicize its educational and cultural services.

8. Operation of the National Audiovisual Center which provides central services to Federal agencies and the general public on audiovisual materials produced by or for Federal agencies.

AUTOMATED DATA AND TELECOMMUNICATIONS SERVICE

The Commissioner, Automated Data and Telecommunications Service, is responsible for GSA's Government-wide ADP and communications programs. These programs include:

1. Management, operation, and utilization of Federal Data Processing Centers and communications facilities which provide services to GSA and other departments and agencies of the Federal Government.

2. Promotion and coordination of the economic and efficient purchase, lease, maintenance, operation, and utilization of ADP equipment by Federal departments and agencies.

3. Provisions of guidance, assistance, and coordination to Federal agencies in their procurement and utilization of ADP and communications services.

FEDERAL PROPERTY RESOURCES SERVICE

The Commissioner, Federal Property Resources Service, is responsible for programs and activities of GSA relating to the:

1. Promotion of maximum utilization of real property by Federal agencies and the transfer among Federal agencies of excess real property.

2. Revise planning, interagency coordination, and environmental and cultural enhancement reviews involved in the disposition of excess and surplus real property.

3. Promote maximum utilization of excess personal property and the transferring of excess and/or surplus personal property among Federal agencies and other authorized recipients.

4. Assignment, care, custody, and accountability of excess and/or surplus property and the disposal of surplus real and personal property.

5. Management of the national, supplemental, and Defense Production Act stockpile of strategic and critical materials required to keep the Nation's mobilization base viable.

6. Management of the Jewel Bearing Program in accordance with Public Law 90-469, August 8, 1968.

TRANSPORTATION AND PUBLIC UTILITIES SERVICE

The Commissioner, Transportation and Public Utilities Service, is responsible for the following programs:

1. Development and execution of all programs concerned with transportation and traffic management and the procurement of public utilities.

2. Operation and maintenance of motor equipment and public utilities to meet the requirements of Federal agencies.

3. Maintenance of interagency motor pool transportation system.

4. Conduct of surveys and studies in the motor equipment, transportation, and public utility areas to improve practices in the Federal agencies.

5. Audit of all U.S. Government transportation bills and processing of transportation claims by and against the U.S. Government.

6. Assisting executive agencies in proceedings before Federal and State regulatory bodies and in the negotiation of rates and contracts for transportation and public utility services.

FEDERAL PREPAREDNESS AGENCY

The Director, Federal Preparedness Agency, is responsible for the following:

1. Development of national policy and program guidance in the field of civilian preparedness.

2. Conducting studies and analyses in support of preparedness activities.

3. Coordinating Federal response in special crises and providing guidance to the States relative to emergency preparedness.

4. Maintaining suitable emergency operating facilities and other arrangements for continuing operation to ensure continuity of the Government in emergencies.

5. Preparing plans which enables the country to respond to emergencies and for continually informing the President and affected agency heads of developments in these emergencies.

REGULATORY MATERIAL

The Federal Property and Administrative Services Act of 1949, as amended, directs the Administrator to prescribe policies to guide executive agencies in the conduct of property operations. The Administrator has issued regulations which sometimes prescribe or limit the discretion of the agencies and sometimes set the policy but allow a certain amount of agency choice in how they conduct their property operations. The regulations issued by the Administrator within the scope of applicable law and regulations of the President which specifically authorize their issuance must be regarded as statutory regulations having the force and effect of law (37 Comp. Gen. 306).

CODIFIED REGULATIONS

The codified regulations of the Administrator are published in the Code of Federal Regulations under the following titles:

Title 32A, Chapter 1 - Federal Preparedness Agency. This chapter contains several regulations and other documents prescribed by FPA and its predecessors. The regulations deal with the following things: necessity certificates, which certify that a construction project will be used for certain defense purposes; payment certificates, which certify that a payment made by the United States to a taxpayer is compensation for the unamortized cost of an emergency facility; the preservation of wage and salary records under the Defense Production Act; the investigation of the effect of imports on national security; and a prohibition against discrimination based on race, color, or national origin in financial assistance programs.

Title 41, Chapter 1 - Federal Procurement Regulations. This title incorporates policies, procedures, and regulations prescribed by the Administrator for the economical and efficient procurement of personal property, construction, transportation, and services by the Federal agencies. The title covers such matters as contracting; advertising; foreign purchases; procurement forms; bonds and insurance; the procurement of ADP equipment and services; and Federal, State, and local taxes. These regulations apply to all Federal agencies to the extent specified in the Federal Property and Administrative Services Act of 1949 or other applicable laws; most of the regulations are not made mandatory on the Department of Defense.

Title 41, Chapter 101 - Federal Property Management Regulations. Under this title are published the policies, procedures, and regulations prescribed by the Administrator for the economical and efficient management of property by the Federal agencies. The topics covered include records management, stockpile management, construction and management of buildings, assignment and utilization of space, inventory management, distribution, quality control, Government-wide automated data management services, telecommunications management, public utilities, motor equipment management, transportation and traffic management, property rehabilitation, and utilization and disposal of real and personal property. These regulations apply to all Federal agencies to the extent specified in the Federal Property and Administrative Services Act of 1949 or other applicable laws.

FINANCING OF GSA ACTIVITIES

GSA's operations are financed through direct appropriations; self-liquidating advances from, and user charges to, customer agencies; transfers of construction funds from other Government agencies; interest-bearing advances from the

Treasury; proceeds from rentals of building sites; and proceeds from sales of certain types of surplus property. As indicated, the costs associated with many of the services performed by GSA are reimbursable, and, to facilitate the financing of these services, various revolving, managing, and trust-type funds have been established. The types and amount of financing available for GSA activities, including brief descriptions of the activities, are shown in each year's U.S. Budget Appendix.

CHAPTER 5

THE GENERAL ACCOUNTING OFFICE

INTRODUCTION

The General Accounting Office (GAO) is a nonpolitical, nonpartisan agency in the Legislative Branch of the Government. It was created by the Congress through the Budget and Accounting Act of 1921 and placed under the direction and control of the Comptroller General of the United States. The Act vested in GAO all the powers and duties formerly prescribed for the Comptroller of the Treasury by statutes extending back to 1789.

The Comptroller General and the Deputy Comptroller General are appointed by the President with the advice and consent of the Senate. The law provides that they (1) hold office for 15 years, (2) retire from office when they reach the age of 70 years, and (3) be removed only by joint resolution of the Congress for specified causes or by impeachment. The Comptroller General is not eligible for reappointment.

Established to act in behalf of the Congress, GAO is required by the 1921 Act to:

- --Investigate all matters relating to the receipt, disbursement, and application of public funds and make recommendations for greater economy or efficiency in public expenditure.
- --Make investigations and reports requested by either House of the Congress or its committees having jurisdiction over revenue, appropriation, or expenditures.
- --Furnish any aid and information requested by these committees.

The need for audits by "an establishment of the Government independent of the executive department" is clearly expressed in these excerpts from the legislative history of the Act.

> "The creation of an independent auditing department will produce a wonderful change. The officers and employees of this department will at all times be going into the separate departments in the examination of their accounts. They will discover the

very facts that Congress ought to be in possession of and can fearlessly and without fear of removal present these facts to Congress and its committees. The independent audit will, therefore, *** serve to inform Congress at all times as to the actual conditions surrounding the expenditure of public funds in every department of the Government."

* * * * * *

"The bill provides for the appointment of an official termed the Comptroller General, whose duty it is to follow every appropriation made by Congress and see that the money is properly spent. This will be of invaluable service to Congress, as this official, being entirely independent of every other branch of the Government, is directly responsible to Congress.

"It was the intention of the committee that the Comptroller General should be something more than a bookkeeper or accountant; that he should be a real critic, and at all times should come to Congress, no matter what the political complexion of Congress or the Executive might be, and point out inefficiency***."

In addition to reviewing the economy and efficiency of Government activities, GAO examines whether programs and activities are achieving their objectives. Program results reviews consider whether (1) desired benefits are being realized; (2) legislative objectives are being met; and (3) alternative approaches might achieve program objectives more efficiently or at a lower cost.

Since 1921 GAO's responsibility and authority have been broadened by additional Acts of the Congress including the Government Corporation Control Act in 1945, that Accounting and Auditing Act of 1950, the Legislative Reorganization Act of 1970, the Congressionl Budget and Impoundment Control Act of 1974, and the General Accounting Office Act of 1974. In addition, various other statutes have expanded the Comptroller General's audit and evaluation responsibility and his authority to have access to information or require action in support of his responsibility. Among the significant statutes enacted in recent years were the Energy Policy and Conservation Act of 1975, the Health Professions Educational Assistance Act of 1976, Public Law 95-125 (October 7, 1977) granting access to tax records of the Internal Revenue Service and the Bureau of Alcohol, Tobacco, and Firearms, Public Law 95-142 (October 25, 1977) giving subpoena power for purposes of audit programs authorized under the Social Security Act, the Department of Energy Act of 1978--Civilian Applications, and the Federal Banking Agency Audit Act of 1978.

A history of the development of Federal financial control and audit authority is given in Titles I and III of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.

PRINCIPAL FUNCTIONS OF GAO

The principal functions of GAO are:

Auditing:
Auditing the programs, activities, financial transactions, and accounts of the Federal Government, and reporting to the Congress and the agencies the results of audit work.

Fraud Prevention:
Providing resources to make an overall analysis of identified fraudulent or potentially fraudulent practices in order to develop controls and audit approaches designed to prevent or minimize opportunities to commit frauds.

Accounting and Financial Management:
Prescribing principles, standards, and related requirements for accounting; cooperating in the development and improvement of agency accounting and financial management systems; approving agency accounting systems; and reviewing agency accounting systems in operation.

Direct Assistance to the Congress:
Making special surveys and reviews at the request of congressional committees and members of Congress; furnishing information in reply to inquiries; assigning personnel to assist congressional committees; testifying before committees of the Congress; developing questions for use during hearings; commenting on proposed legislation, and supporting the congressional budget process, including advising the Congress on the legality and impact of rescissions and deferrals of budget authority proposed by the President.

Legal Decisions by the Comptroller General:
Deciding, at the request of department and agency heads or disbursing and certifying officers, the legality of proposed payments or transactions, and reviewing GAO settlements when disallowed; deciding, at the request of procurement officials, contractors, or bidders, questions about the award of government contracts.

Claims Settlement and Debt Collection:
Settling claims by and against the Federal Government and collecting amounts certified by GAO to be due the Government, including amounts reported by Government departments and agencies as uncollectible through means available to them.

Records Management and Services:
While agencies are responsible for managing their own records, GAO specifies the records which make up accountable officers' accounts and as such are considered GAO records. GAO also has an interest in agency records which are needed in the course of GAO audits and specifies the length of retention required for audit purposes.

AUDITING

GAO audits Federal financial, management and program activities to provide the Congress and agency officials with significant and objective information, conclusions, and recommendations to improve government operations.

The full scope of a GAO audit includes:

--Examining accounting records and financial transactions and statements.

--Checking for compliance with applicable laws and regulations.

--Reviewing the efficiency and economy of operations.

--Evaluating the effectiveness of programs to determine if desired results, including legislative objectives, have been achieved.

Audits of the effectiveness of Government program and the efficiency with which they are carried out naturally extend to the productivity of Government operations. GAO has a basic responsibility to use its audit results to foster productivity improvements throughout the executive branch. Under its legal requirement to audit the National Center for Productivity and Quality of Working Life, the GAO has recommended that, even though the Center was being disestablished, there should be a continuing effort at the Federal level to participate in a coordinated attack on productivity problems. GAO also evaluates the impact of Federal programs and regulations on the productivity of the private sector and State and local governments.

Within certain limitations, the audit authority and responsibility of the General Accounting Office extends to all activities, financial transactions, and accounts of the Federal Government. The authority extends also to the records of contractors having Government contracts negotiated without advertising; their subcontractors and recipients of certain Federal financial assistance, such as loans, advances, grants, and contributions.

With the extension of the General Accounting Office's audit authority by the Federal Banking Agency Audit Act of 1978, the remaining limitations on audit authority relate principally to the Exchange Stabilization Fund established by the Gold Reserve Act of 1934 and the Central Intelligence Agency.

Frequency and Location of Audits

The frequency and scope of GAO's audits are usually determined by the Comptroller General. There are some exceptions, however. For example, corporations subject to the Government Corporation Control Act must be audited at least once every three years, as must the Federal Deposit Insurance Corporation, the National Homeownership Foundation, and the Government Printing Office.

Also, GAO must settle the accounts of accountable officers within three years of their receipt if officers are to be held personally liable for any deficiencies, except in cases of fraud or criminality.

The breadth and depth of Government-wide audit responsibilities in relation to GAO's resources require efficient use of staff both in assignments undertaken and in the conduct of those assignments. Except as otherwise required by statute, external request, or other factors beyond its control, the basic audit policy of GAO is to apply its resources and talents to the Government's programs, activities, and operations where they will be most useful to the Congress and do the most to bring about greater efficiency, economy, and effectiveness.

Most audits are performed at the offices of the agencies where operations are conducted and books and other records are kept. That may be in Washington, D.C., at points throughout the United States, including Alaska or Hawaii, or in foreign countries.

Reporting on Audits

Information resulting from GAO audits is usually communicated in written reports to the Congress as a whole; to the congressional legislative, appropriation, and Government operations committees; and to individual Members of Congress who have expressed special interest in particular subjects.

Copies of audit reports are sent to the responsible agency officials so that they can act promptly to bring about greater effectiveness, efficiency, and economy in the conduct of their programs and activities. Also, most reports are made available to the general public.

Periodic publications are used to summarize and highlight audit recommendations. For example, the Monthly List of GAO Reports, distributed to all members of the Congress, highlights reports recently issued. The list briefly summarizes the reports so the recipients can identify and request copies of reports of special interest.

The annual report of the Comptroller General is another important means of communicating information. It summarizes the significant audit findings, recommendations, and accomplishments for the fiscal year and calls attention to any significant unresolved issues.

When findings, conclusions, and recommendations in GAO reports do not require action by the Congress or are believed not sufficiently significant to be of interest to the Congress or its committees, the reports are issued directly to department or agency officials concerned.

GAO's recommendations for improving operations or achieving greater economy or efficiency are frequently adopted by the agencies without the intervention of the Congress or its committees. However, the Legislative Reorganization Act of 1970 requires--for each GAO report containing recommendations to the head of any Federal agency--that the agency, within 60 days after issuance of the report, submit to the Governments Operations Committees a written statement of action taken on GAO's recommendations.

A similar statement is required to be submitted to the Appropriations Committees in connection with the agency's first request for appropriations submitted more than 60 days after the date of the report.

Audits of Government Agencies

Each Federal agency is responsible for managing and using its resources--funds, property, and personnel--only for authorized programs, activities, or purposes, and conducting its programs or activities in an effective, efficient, and economical manner to achieve the objectives established or intended by the Congress.

GAO audits the agencies for the Congress to independently examine the manner in which the agencies discharge their financial and managerial responsibilities. Particular emphasis is placed on aspects suspected or found to require correction or improvement. The objective is not only to stimulate corrective action but to avoid repetition of the problem.

GAO also examines the personal accountability of certifying, collecting, and disbursing officers. These audits serve as a basis for making settlements with these officers, when required.

GAO also reviews results of programs and activities to provide information the Congress needs in its legislative and oversight responsibilities. GAO reports on the agencies' progress in accomplishing the objectives of their programs and activities and identifies matters that need resolution to improve the agency's operations.

Audits of Negotiated Contracts

Negotiated contracts are used extensively throughout the Federal Government. Primary audit responsibility rests with the contracting agencies. GAO audits negotiated contracts, on a selective basis, to examine the effectiveness with which the administrative agency and the contractor have discharged their financial responsibilities to the Government. Access to the pertinent books, documents, papers, and records of contractors and subcontractors is provided in a number of laws.

Audits of Recipients of Federal Financial Assistance

Various laws also give GAO authority to audit the records of certain recipients of Federal financial assistance such as loans, advances, grants, or contributions. These audits are an integral part of GAO's efforts to review the manner in which funds and resources of the Federal Government are being used and safeguarded. The primary objective is to evaluate the effectiveness with which the administering Federal agencies and recipients fulfill their respective responsibilities and obligations to the Government.

Payroll Audits

As a general rule civilian payroll expenditures by Government agencies are audited by GAO at the agency sites where the payroll, personnel, leave, and other pertinent records are kept. Pay of military personnel is audited, for the most part, at one central location for each of the military departments.

Audit and Settlement of Accounts of Accountable Officers

With certain exceptions, all cash transactions of the Federal Government and all funds in the possession of officers of the Federal Government must be reported in the accounts of accountable officers. The accounts are subject to audit and settlement by GAO. The exceptions relate principally to Government corporations whose officers generally are not required to submit accounts for settlement and to those agencies for whom the Treasury Department disburses at its regional disbursing offices or branches.

The term "accountable officer" refers to authorized disbursing officers, certifying officers, and certain collectors. An account is a summary of the officer's transactions for the month, a statement of the amount for which he is accountable, and a statement of the amount of items comprising his accountability. The account is supported by the expenditure vouchers, schedules of collections, and related documents or by lists of vouchers if the agency concerned has been permitted to retain the documents for audit at the site.

GAO settles accounts of accountable officers by examining and testing the agencies' internal controls, including internal audit, financial transactions and related documents, and by issuing certificates of exceptions outstanding when appropriate to do so.

FRAUD PREVENTION

The amount of funds being wasted as a result of fraudulent or otherwise improper payments has increased sharply with the growth of Federal individual assistance programs which are readily susceptible to false entitlement representations and with the sheer magnitude of Federal programs for contracts, grants, and loans. GAO and agency audit activities have uncovered numerous instances of fraudulent or potentially fraudulent practices in the course of operational audits. While individual instances where the evidence warranted were reported to the Department of Justice for possible prosecution, there was no attempt to make an overall analysis of identified fraud or potential fraud and develop controls and audit approaches designed to prevent or minimize opportunities to commit frauds.

GAO has established a Special Task Force on the Prevention of Fraud to act as a focal point to analyze all the information available on fraud or potential fraud in order to take more effective preventive action. Specific objectives are to:

--Obtain an overview of the extent of fraud, abuse, and error identified by Federal agencies, and their efforts to control these problems;

--Determine the weaknesses in internal controls or program features which permitted these problems to occur, and make them known to each agency;

--Determine the vulnerability of the programs of selected agencies to fraud, abuse and error and report it to the Congress;

--Develop the tips GAO receives on its nationwide "Hotline" into cases which either can be prosecuted by the Justice Department or reported to agencies for corrective action;

--Improve the training received by auditors and investigators in this area so they may better detect and prevent fraud;

--Followup on fraud cases reported to the Justice Department to make sure action is being taken on them;

--Maintain close liaison with the cognizant congressional committees so that they, through hearings and by other methods, can help agencies take appropriate corrective action.

IMPROVING ACCOUNTING AND BUDGETING SYSTEMS

Accounting

Prescribing Accounting Principles, Standards, and Related Requirements

The Comptroller General, after consulting with the Secretary of the Treasury and the Director, Office of Management and Budget (OMB), and after considering the needs of other executive agencies, is responsible for prescribing the principles, standards, and related requirements for accounting to be observed by each executive agency. In meeting this responsibility, GAO has issued the principles and standards of accounting to be observed by executive agencies as Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Other requirements are stated elsewhere in that manual.

Cooperating in the Development of Accounting Systems

The head of each agency is responsible for establishing and maintaining systems of accounting which conform to the principles and standards prescribed by the Comptroller General. Under cooperative arrangements initiated either by GAO or the agency, GAO helps executive agencies develop their accounting systems.

The two basic objectives of GAO's cooperative work are:

1. Developing accounting systems which meet the requirements prescribed by the Comptroller General.

2. Developing financial management systems which meaningfully integrate accounting with other aspects of management.

Approval Responsibility

The Comptroller General approves agency accounting systems when deemed by him to be adequate and in conformity with prescribed accounting principles, standards, and related requirements. Under procedures adopted in October 1969, the Comptroller General will formally approve:

1. The agency statement of accounting principles and standards established to govern their accounting systems.

2. The proposed general designs of the systems.

The purpose of the two-stage approval process is to obtain early agreement between GAO and agency on the underlying principles and standards to be followed in the design and implementation of the system. This process facilitates systematic and early identification and resolution of possible problem areas that might preclude ultimate approval of the system design.

After a statement of accounting principles and standards and a general design of the accounting system have been approved, GAO continues to cooperate in further refinements and, when needed, to demonstrate to management the benefits to be derived from the use of soundly based financial data in the decisionmaking processes of the Government.

Review of Accounting Systems in Operation

GAO reviews Federal agency accounting systems in operation to (1) ascertain whether accounting systems comply with the principles, standards, and related requirements prescribed by the Comptroller General (2) identify needed improvement and encourage further development effort by the executive agencies, (3) identify ways to improve overall financial management, and (4) settle accounts of accountable officers.

GAO's major concern is whether information produced is useful in meeting the financial management needs of both the Congress, and the Federal agencies. Adequate accounting systems are among the most important tools for effective financial management.

Budgetary and Fiscal Standardization

The Legislative Reorganization Act of 1970, as amended by the Congressional Budget and Impoundment Control Act of 1974 gave GAO a number of responsibilities related to budgetary and fiscal information. For example, OMB and the Treasury, in cooperation with GAO, are to develop standardized fiscal, budgetary, and program information systems for the use of the Federal Government and, insofar as practicable, State and local governments.

Also, the Comptroller General, in cooperation with the Treasury, OMB, and the Congressional Budget Offices, is responsible for developing standard terminology, definitions, classifications, and codes for use by Federal agencies in supplying budget information to the Congress.

In developing these standard classifications and definitions, the Comptroller General is to give particular consideration to the needs of the budget, appropriations, and tax committees and the needs of the Congressional Budget Office. The Comptroller General is further required to help committees develop their information needs and to report annually on the identification of such needs. Each year OMB and the Treasury are also to report to the Congress on their plans for adddressing the committees' needs.

GAO also furnishes budget and related information to the Congress, including data directories, and assists the Congress in analyzing budget data. The Comptroller General is authorized to establish central information files to meet the needs of the Congress. Also, OMB, in cooperation with GAO, the Congressional Budget Office, and State and local governments is to provide (to the extent practicable) budget information to States and localities so that they may determine the impact of Federal assistance upon their budgets.

The provisions of the 1970 Act, as amended, are an extension of congressional policy as stated in the Budget and Accounting Procedures Act of 1950. One of the objectives in the 1950 act was to provide some assurance to the Congress that the executive agencies developed accounting systems which would provide the basis for preparing and supporting agency budget requests, for controlling the execution of the budget, and for providing financial information required by the Executive Branch. GAO believes that budgetary and fiscal data processing requirements under the Legislative Reorganization Act are a necessary step toward establishing an appropriate relationship between the Federal accounting and budgeting functions.

In responding to the mandate of the 1970 Act, GAO works with the committees of the Congress to more clearly identify the type and extent of budgetary and fiscal data they need to carry out their legislative and oversight functions. This work is closely coordinated with efforts of the Department of Treasury and OMB to establish the budgetary and fiscal data processing system called for in the 1970 Act.

DIRECT ASSISTANCE TO THE CONGRESS

A very important aspect of GAO's work is the special assistance it provides the Congress. In addition to the work initiated under its statutory responsibilities, GAO makes many audits and special studies at the specific request of the Congress. This includes surveys, reviews, and studies directed by law, recommended in committee reports, and requested by congressional committees and members.

The Comptroller General also assists committees to develop statements of legislative objectives and methods for assessing program performance and develops and recommends program evaluation methods to the Congress. In addition, the Impoundment Control Act of 1974 gave the Comptroller General responsibility for reviewing and advising the Congress about the legality and impact of proposed rescissions and deferrals of budget authority by the Executive Branch. GAO also has the authority to bring suit against the agencies to free budget authority not made available as required.

Other ways GAO directly assists the Congress include:

--Providing information and legal services relating to Government operation and policies to congressional committees and members of the Congress through formal testimony, informal conferences, reports on proposed legislation, and interpretations of statutes.

--Providing advisory assistance in developing and drafting legislative proposals and furnishing questions for use during hearings.

--Assigning staff members to directly assist congressional committees.

LEGAL DECISIONS BY THE COMPTROLLER GENERAL

Numerous questions about the legality of Government expenditures arise during the day-to-day performance of the Government's operations. Conclusive answers are needed to establish the propriety of individual payments or the legality of entire programs. Authority to decide these questions is vested in the Comptroller General.

The Comptroller General also renders decision in advance of payment when requested by disbursing officers, certifying officers, and the head of any department or establishment of the Government. In the case of disbursing officers and certifying officers, decisions are rendered only on specific vouchers. To minimize delays in awarding Government contracts, contracting officers may request advance decision. Also, bidders may protest proposed or actual contract awards directly to the Comptroller General. After GAO reviews the matter, the bidder and administrative office are advised of the legality.

Decisions also are rendered to disbursing and certifying officers who request review of settlements of their accounts and to individual claimants who request review or reconsideration by the Comptroller General of settlements disallowing their claims in whole or in part.

The Office of General Counsel prepares these decisions for the Comptroller General. The decisions are final and conclusive on the Executive Branch but are not binding on the Congress or the courts.

To keep the Government agencies and others currently informed, GAO furnishes daily synopses of decision of uniform application or general interest, furnishes copies of such decision upon request, and publishes them in monthly pamphlets and annual volumes. Copies of unpublished decisions also are available to Government agencies on request. The Office of the General Counsel maintains a subject card index of both published and unpublished decisions and furnishes research service to authorized officials of the Government. Requests for such service may be made in writing or by telephone.

CLAIMS SETTLEMENT

GAO has the authority and responsibility to settle and adjust claims and demands by or against the Government of the United States unless otherwise specified by law.

Claims Against the United States (Payment Claims)

Generally each Government agency is responsible for paying the obligations incurred in connection with its operations. Two classes of claims, however, are referred to GAO for settlement before payments is made or denied. The first includes those involving doubtful questions of law or fact. The second includes claims which the administrative agencies are specifically prohibited by law from paying, prior to settlement by GAO. In addition, GAO considers reclaims of items previously denied by administrative agencies, unless the agency determines that the administrative disallowance was erroneous and can be corrected at the agency level. With certain exceptions, claims must be received by GAO within six years.

Claims against the United States arise from every kind of Government transaction, and the claimants include private citizens; Government personnel, both civilian and military; business entities; and State, local and foreign governments. The categories of claims include Government contracts; compensation due civilian employees, including overtime and premium pay; quarters and cost-of-living allowances; travel; transportation of household effects; per diem; allowances on change of official station; pay and allowances due military personnel; retirement pay; compensation due survivors of deceased civilian officers and employees; pay due survivors of deceased members of the Armed Forces and the National Guard; as well as miscellaneous claims by Government personnel.

GAO gives the rights of both the claimant and the United States impartial consideration. Claimants are allowed legally entitled amounts without the expense involved in litigation. GAO's settlements are final and conslusive on the Executive Branch of the Government, but claimants may request reconsideration of adverse settlements and have further recourse to the Congress or to the courts.

Claims by the United States (Debt Claims)

Each agency also is responsible for collecting debts arising out of its operations. If the collection actions are unsuccessful, the debts are referred to GAO, or in the case of some agencies, to the Department of Justice. In addition, numerous claims of the United States are referred to GAO for adjudication when they involve doubt as to the amount due, the legal liability of the parties, or the action to be taken. Similarly, GAO independently adjudicates claims disputed by debtors.

If GAO's collection action is unsuccessful because the debtor refuses to answer correspondence or arrange for settlement, the claim is referred to the Department of Justice. GAO certifies the parties liable and the amount due the United States. All the information and documents necessary to support court proceedings is transmitted to the Department of Justice.

By law, the Comptroller General or executive agency heads may waive claims for pay and allowances erroneously paid to Government employees and members of the uniformed services or National Guard. The basis criteria for granting waivers is that collection would be against equity and good conscience and not in the best interest of the United States.

Waivers may be granted only if there is no indication of fraud, misrepresentation, fault, or lack of good faith on the part of the employee or other interested persons. Only GAO may waive overpayments of pay and allowances aggregating more than $500 and exceptions made by GAO in the account of any accountable officer.

Agency Reviews and Assistance-Claims

To improve agency effectiveness in claims settlement, debt collection, and waivers, GAO reviews agency regulations, procedures, and actual operations. After reviews are completed, GAO reports its findings and recommendations to the heads of agencies or subordinate officials, and, when warranted, to the Congress.

RECORDS MANAGEMENT AND SERVICES

Agencies are responsible for managing their own records, subject to statutory and regulatory restraints. Good management requires that records be disposed of as soon as they are no longer needed, that archival needs be recognized, and that there be a continuous records management program to appraise, transfer, or dispose of records efficiently and economically.

GAO's responsibility for settling the accounts of accountable officers requires that the records making up those account be defined by GAO. These records are defined along with rules governing their retention and disposition in Title 8 of the GAO Policy and Procedures Manual for the Guidance of Federal Agencies.

GAO also has a direct interest in Federal agency records which document program operations and administrative functions (such as personnel, payroll, procurement, and communications). These records are needed for auditing Government operations and settling accounts.

When audits are conducted where the accounts and records of such agency are normally kept the agencies retain the records subject to GAO's regulations as given in title 8.

Fiscal, property, and other records pertaining to claims, demands, and accounts may not be disposed of without written approval of the Comptroller General. GAO approves the disposal of records which, after the lapse of stated periods of time, have insufficient administrative, legal, research, or other value to warrant their further preservation. Further, GAO approves agency programs for transferring records retained for audit to Federal records centers.

Records Services

Records, books, papers, and other documents in GAO's possession often contain information or evidence which is required by Government agencies or individuals for use in public or private business. Copies are furnished on proper application and payment of fees when requested. Certified copies are admissible in evidence equally with the originals, and to the same effect.

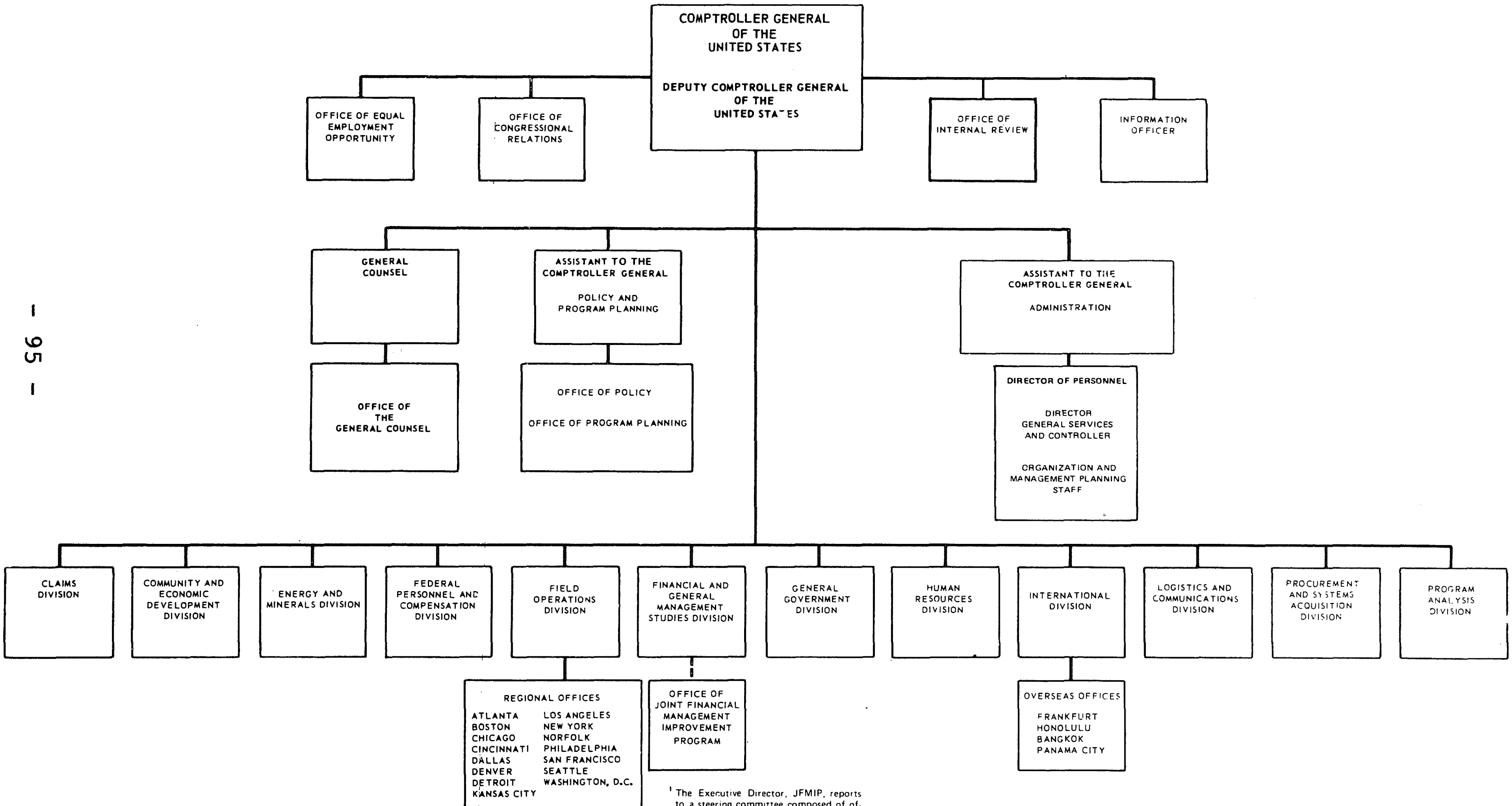
COUNTERSIGNING WARRANTS

Warrants signed by the Treasurer of the United States are used for recording and adjusting appropriations on the books of the Treasury Department and the agency for which the appropriation is made. The Comptroller General is required to countersign warrants issued under continuing resolutions. Such warrants are countersigned for the Comptroller General by members of the General Government Division audit group assigned to the Treasury Department audit.

ORGANIZATION OF GAO

Appendix A shows the organization chart of the General Accounting Office and summarizes the responsibilities and functions of some of the suborganizational units.

UNITED STATES GENERAL ACCOUNTING OFFICE



[1] The Executive Director, JFMIP, reports to a steering committee composed of officials of GAO, OMB, Treasury, and CSC. The Director, FGMS, is a steering committee member.

AUDIT DIVISIONS

Community and Economic Development Division

The Community and Economic Development Division coordinates GAO's work in the area of food; domestic housing and community development; environmental protection; land use planning arrangement, and control; transportation systems and policies; and water and water-related programs.

In addition to its leadership responsibilities for these issue areas, this division provides GAO audit coverage at the Departments of Agriculture, Commerce, Housing and Urban Development, Interior (except energy and mineral activities, and Transportation; the Army Corps of Engineers (civil functions): the Environmental Protection Agency; the Small Business Administration; the Interstate Commerce, Federal Maritime, and Federal Communications Commissions; the National Railroad Passenger Corporation (AMTRACK); the Washington Metropolitan Area Transit Authority; the U.S. Railway Association; the Civil Aeronautics Board; the Commodity Futures Trading Commission; and a variety of boards, commissions, and quasi-governmental entities.

Energy and Minerals Division

The Energy and Minerals Division serves as lead division within GAO for the issue areas of energy and of materials.

The division provides GAO audit coverage for the Department of Energy; the Tennessee Valley Authority energy and minerals programs of the Department of the Interior; and energy and materials activities located in numerous other Federal entities.

Federal Personnel and Compensation Division

The Federal Personnel and Compensation Division is the lead division for GAO work in the issue of Federal personnel management and compensation.

This division provides GAO audit coverage for the Office of Personnel Management, Merit Systems Protection Board, and Federal Labor Relations Authority (these agencies have replaced the Civil Service Commission). The division also examines government-wide personnel activities relating to and affecting Federal Forces.

Field Operations Division

The Field Operations Division, through its regional offices in 15 cities, provides direct audit support throughout the continental United States, Alaska, Puerto Rico, and the Virgin Islands for GAO's other operating division. Thus, this division plays a major role in most of the audits and work of GAO. About half of GAO's professional staff is assigned to its regional offices.

Financial and General Management Studies Division

The Financial and General Management Studies Division is responsible for coordinating GAO's work in the issue areas of: automatic data processing, internal auditing systems for Federal and federally assisted programs; accounting and financial reporting and national productivity.

This division carries out its responsibilities through participation in the Joint Financial Management Improvement Program; assistance to other GAO division in technical and advisory services; and its government-wide responsibilities for automatic data processing, accounting systems, internal auditing, and productivity. It also provides GAO audit coverage at the Securities and Exchange Commission.

General Government Division

The General Government Division is responsible for coordinating GAO's work in the issue areas of: intergovernmental policies and fiscal relations; law enforcement and crime prevention; tax administration; and data collected from non-Federal sources (statistical and paperwork implications).

This division provides GAO audit coverage for the Departments of Justice and Treasury; the District of Columbia Government; the United States Postal Service; the judicial and legislative branches of the Federal Government; the bank regulatory agencies; and various other agencies and commissions.

Human Resources Division

The Human Resources Division serves as lead division for the issue areas of: consumer and worker protection; administration of nondiscrimination and equal opportunity programs; education; health; income security; and employment and training.

In addition to its leadership responsibilities for issue areas, this division provides GAO audit coverage for the Department of Labor, the Department of Health, Education and Welfare; the Community Services Administration; the Consumer

Product Safety Commission; the Federal Trade Commission; the Legal Services Corporation; ACTION; the Railroad Retirement Board; the Equal Employment Opportunity Commission; the Veterans Administration; and various other commissions and independent agencies.

International Division

The International Division serves as lead division for the internal affairs issue area.

This division provides GAO audit coverage for the Department of State; the Agency for International Development; the Export-Import Bank of the United States; the International Communication Agency; the Panama Canal Company; as well as international activities of numerous other Federal entities, International Division personnel staff GAO's overseas offices.

Logistics and Communications Division

The Logistics and Communications Division serves as the lead division within GAO for work in the areas of: facilities and material management; military preparedness; Federal information (creation, protection, access, disclosure, and management); and communications.

Most of this division's work covers the Department of Defense. It also provides GAO audit coverage for portions of the General Services Administration and the Government Printing Office, in addition to its government-wide responsibilities relating to logistics, information, and communication.

Procurement and Systems Acquisition Division

The Procurement and Systems Acquisition Division is responsible for coordinating GAO's work in the issue areas of Federal procurement of goods and services, and of science and technology policy and programs.

Most of this division's work is concentrated in the Department of Defense, the National Aeronautics and Space Administration, the defense-related activities of the Department of Energy, and the Federal Supply Service of the General Services Administration. It also has the responsibilities for government-wide procurement and science and technology matters.

Program Analysis Division

The Program Analysis Division serves as the lead division within GAO for work in the issue areas of: tax policy; evaluation guidelines and methodology; program and budget information for congressional use; regional and national economic problems; and alternative methods for achieving Federal program objectives. It also serves to lead the Office's activities in the science policy area.

This division maintains audit responsibility for several agencies, including the Office of Science and Technology Policy, the National Science Foundation, and the Bureau of the Public Debt. It is GAO's focal point for work in the areas of economics and program evaluation techniques, and coordinates GAO activities with the Congressional Budget Office and the Office of Technology Assessment.

OTHER OFFICES AND DIVISIONS

Office of the Comptroller General

There are four offices which operate in the immediate office of the Comptroller General, performing direct staff services for him. These are: the Office of Congressional Relations, which coordinates GAO's activities with congressional committees and members; the Office of Equal Employment Opportunity, which oversees GAO's efforts to carry out all of its activities in a nondiscriminatory manner; the Office of Internal Review, which audits and reviews GAO's own operations; and the Office of Information, which assists the public and the media with their queries on GAO reports and activities.

Office of the General Counsel

The Office of the General Counsel assists the Comptroller General in all phases of the legal work involved in matters coming before the General Accounting Office, including carrying out responsibilities for interpreting laws governing public expenditures. Through the work of this Office, numerous reports of the Comptroller General inform the Congress of the construction executive agencies currently are placing on congressional mandates and the extent to which these actions relect congressional intent. The General Counsel also prepares for the Comptroller General final and binding decisions to government officers who are accountable for public funds which they administer. The Office decides disputes between agencies and businesses concerning entitlements to government contracts ("bid protests"), including grantee contract award actions. Members of Congress and Committee chairmen are supplied with opinions on the legality of agency activities and on legislative options. Through the Office of the General Counsel, the Congress is informed of Executive Branch impoundments of available budget authority, and assured of compliance with the provisions of the Impoundment Control Act of 1974.

Claims Division

The Claims Division settles and adjudicates claims and demands by or against the United States. It reviews, evaluates, and reports on the claim settlement and debt collection activities of government agencies.

Administration

GAO's own internal management and administration is supervised by the Assistant to the Comptroller General for Administration. He provides direction over the activities of the personnel and General Services and Controller organizations. Through the latter organization, activities such as publishing services, library and information, and financial management are carried out. In addition, and Organization and Management Planning Staff reports directly to the Assistant to the Comptroller General.

Policy and Program Planning

The Office of Policy and the Office of Program Planning report directly to the Assistant to the Comptroller General for Policy and Program Planning. They ensure that the audit work of GAO is planned. coordinated, and reported in a consistent and effective manner. These offices work with the audit division to implement GAO's policies and planning guidelines across divisional lines.

CHAPTER 6

THE CONGRESSIONAL BUDGET OFFICE

INTRODUCTION

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) established a new procedure by which the Congress considers and acts upon the annual federal budget. To implement this reform, the Congressional Budget Act created three Congressional institutions responsible for various aspects of the new budget process. Two of these bodies are standing committees of the Congress--the House and Senate Committees on the Budget. The third--the Congressional Budget Office--serves both branches of the Congress.

The Congressional Budget Office (CBO) is a nonpartisan organization mandated to provide the Congress with budget-related information and with analyses of alternative fiscal, budgetary, and programmatic policies. The office does not make recommendations on matters of policy; its principal missions are to present the Congress with options for consideration and to study the possible budgetary ramifications of those options.

RESPONSIBILITIES OF THE CONGRESSIONAL BUDGET OFFICE

CBO's analyses usually take the form of published studies comparing present policies and programs with alternative approaches. A list of the CBO publications is available from CBO's Office of Intergovernmental Relations, and most of the publications can be obtained either directly from CBO or, for a small fee, from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The responsibilities of CBO, as outlined in the Budget Act, fall into two general categories:

--Budgetary estimates, and
--Fiscal and programmatic analysis.

These general functions are described in more detail below. The specific statutory provision of CBO's duties are given in the Appendix.

Budgetary Estimates

Scorekeeping. Each spring, the Congress formulates and adopts a concurrent resolution on the budget, setting expenditure and revenue targets for the fiscal year to begin on the coming October 1. In September, the Congress reviews the detailed spending and taxing decisions it had made during the summer in the form of individual bills. It then arrives at and adopts a second concurrent resolution, reconfirming or changing the totals in the spring resolution. While the first resolution sets targets, the second establishes an actual ceiling for spending and a floor for revenues. CBO keeps score of Congressional action on individual bills, comparing them against targets or ceilings in the concurrent resolutions. The Office issues periodic reports showing the status of Congressional action.

Cost Estimates. Four types of cost estimates are required of CBO by the Budget Act.

CBO prepares, to the extent practicable, a five-year estimate for what it would cost to carry out any public bill or resolution reported by Congressional committees (except the two appropriating committees).

CBO furnishes to a reporting committee a report on each committee bill providing new budget authority. Each report shows: (a) a comparison of the bill with the most recent concurrent resolution, (b) a five-year projection of outlays associated with the bill, and (c) the amount of new budget authority and resulting outlays provided for state and local governments.

CBO also furnishes to a reporting committee an analysis of each bill providing new or increased tax expenditures. The reports cover: (a) an assessment of how the bill will affect levels of tax expenditures most recently detailed in a concurrent resolution, and (b) a five-year projection of the tax expenditures resulting from the bill.

As soon as practicable after the beginning of each fiscal year, CBO prepares a report that analyzes the five-year costs of continuing current Federal spending and taxing policies as set forth in the second concurrent resolution. The purpose of these projections is to provide a neutral baseline against which the Congress can consider potential changes as it examines the budget for the upcoming fiscal years.

Fiscal and Programmatic Analysis

Fiscal Analysis. The Federal budget both affects and is affected by the national economy. The Congress thus must consider the Federal budget in the context of the current and projected state of the economy. To provide a framework for such considerations, CBO prepares periodic analyses and forecasts of economic trends. It also prepares analyses of alternative fiscal policies.

Inflation Analysis. Beginning in 1979, CBO will prepare estimates of the inflationary effect of major legislative proposals and, more generally, will identify and analyze the causes of inflation. These estimates are intended to provide the Congress with guidelines, as it undertakes new programs, of the cost in terms of inflation that these programs might entail.

Program and Policy Analysis. CBO undertakes analyses of programmatic or policy issues that affect the Federal budget. These reports include an examination of alternative approaches to current policy; all reports are nonpartisan in nature. These reports are undertaken at the request of: (1) the chairman of the committee or subcommittee of jurisdiction of either the House or the Senate; (2) the ranking minority member of a committee of jurisdiction of either the House or the Senate; or (3) the chairman of a Task Force of the House Budget Committee.

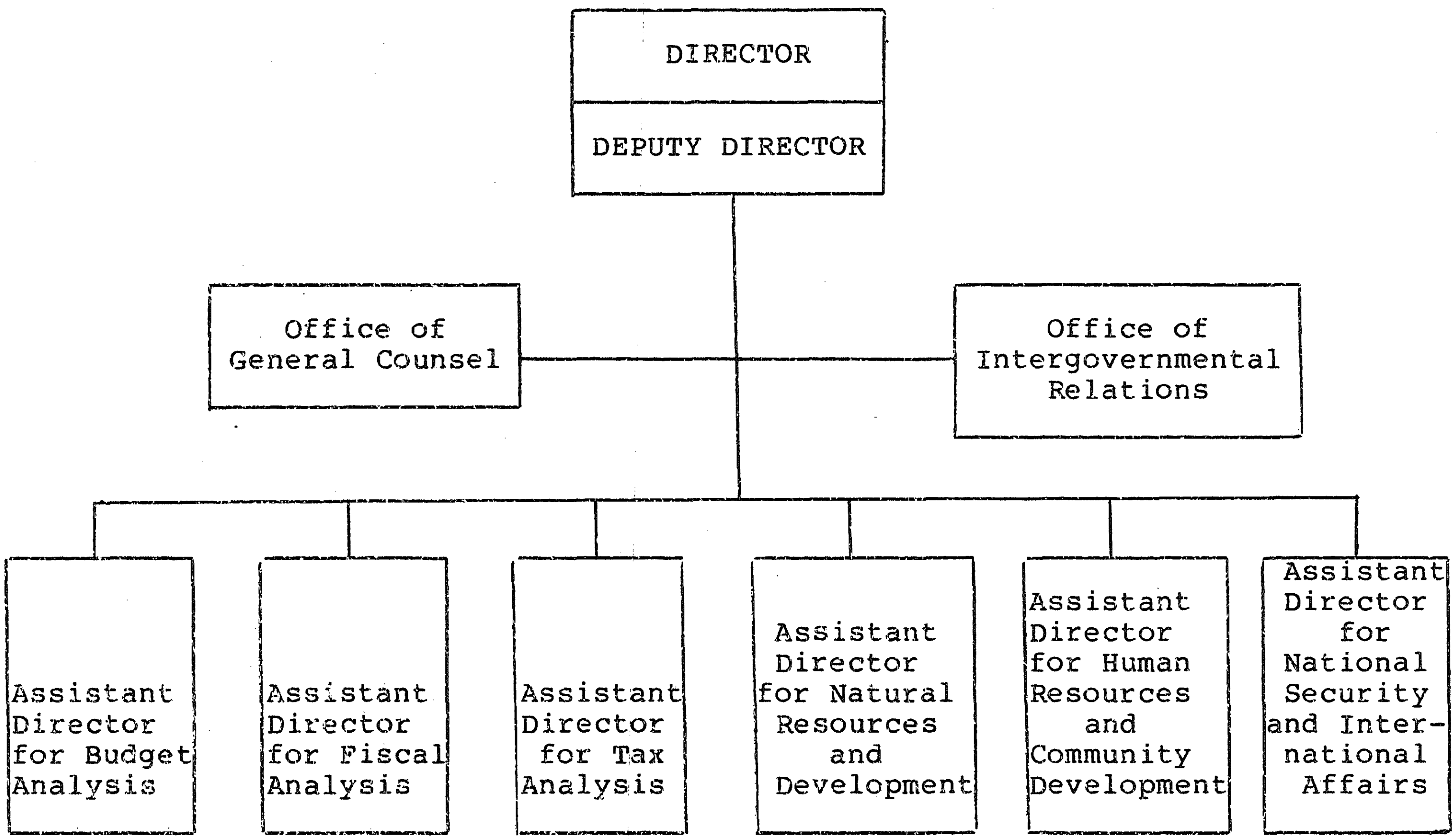
Annual Report on Budget Options. By April 1 of each year, CBO furnishes to the House and Senate Committees on the Budget a report that combines many aspects of the functions outlined above. The annual report presents a discussion of alternative spending and revenue levels, levels of tax expenditures under existing law, and alternative allocations among major programs and functional categories.

ORGANIZATION OF THE OFFICE

The organization of CBO is designed to accomplish its tasks with a maximum of expertise and efficiency. The office's total number of personnel is established annually by the Congress. At present, CBO's staff includes 200 professionals and support personnel. Two positions are specified under the statute--Director and Deputy Director.

The following pages describe the organization of the Congressional Budget Office and provide a summary of each unit's responsibilities and functions.

CONGRESSIONAL BUDGET OFFICE



Office of the Director

The Director of the Congressional Budget Office is appointed for a four-year term by the Speaker of the House of Representatives and the President Pro Tempore of the Senate upon the recommendation of both Committees on the Budget. The Deputy Director is appointed by the Director.

The Director has responsibility for seeing that all the duties of the organization as specified in the Budget Act are performed effectively. The Deputy Director assists the Director in the overall management of the organization and acts in the absence of the Director.

Office of the General Counsel

The General Counsel performs legal work for CBO, interpreting applicable statutes, analyzing proposed legislation, and overseeing procurement actions. The General Counsel also serves as a senior advisor on policy issues.

Office of Intergovernmental Relations

The function of the Office of Intergovernmental Relations (OIGR) is threefold. First, the Office serves as CBO's center of communications with the Congress, with State and local governments, with organizations outside government, and with the news media. Accordingly, OIGR is responsible for ensuring that full and accurate information on the budget process in general, and on CBO's activities related to specific issue in particular, be available at all times. As part of this mission, OIGR is charged with all aspects of the publication of CBO's studies, including editing, overseeing production, and distribution both to the Congress and to the public.

The second role of the Office of Intergovernmental Relations is the analysis of issues relating to the Federal workforce and Government administration. The unit undertakes studies of the budgetary issues involved in Government-wide organization, manpower utilization and compensation, and related management issues.

The third function of the Office of Intergovernmental Relations is to serve as the administrative center of CBO. To monitor the progress of all ongoing work at CBO, OIGR maintains a computerized project control system. Other administrative duties include personnel management and providing computer, contracting, and library services. OIGR also prepares and manages CBO's annual operating budget.

Budget Analysis Division

The Budget Analysis Division assumes the major portion of CBO's responsibility for budgetary estimates. The division has two subunits--the Budget Estimates Branch and the Budget System and Process Branch.

The Budget Estimates Branch is responsible for providing the scorekeeping reports and cost estimates on legislation, and for developing the five-year projection reports on the total Federal budget.

The Budget System and Process Branch assumes CBO's statutory responsibility for development of budgetary terminology, analysis of advance appropriations, and support to committees of the Congress in continuing studies of additional budget reform proposals, In addition, the unit is responsible for developing automated budgetary information systems and for coordinating the provision of all computer support services to CBO analysis.

Fiscal Analysis Division

The Fiscal Analysis Division is responsible for developing economic projections and the analysis of alternative fiscal policies. These analyses focus on issues such as production, employment, and inflation as well as their interaction with the Federal budget.

The division consists of four subunits: Current Developments Unit, Model Simulation Unit, Special Studies Unit, and Inflation Impact Unit.

Tax Analysis Division

The Tax Analysis Division is responsible for revenue estimates, analysis of tax expenditures, and related studies and evaluations. The division prepares the estimates on revenue receipts required in the annual report on budget options and the five-year projection report on the total budget.

Natural Resources and Commerce Division

The Natural Resources and Commerce Division prepares analyses of programmatic and budgetary issues in the areas of energy, environment, natural resources, science, agriculture, commerce, transportation, and communications.

Human Resources and Community Development Division

The Human Resources and Community Development Division provides analyses of budgetary issues in the programmatic areas of income assistance, social services, education, employment, health, veterans' affairs, and community development and housing.

National Security and Internal Affairs Division

The National Security and Internal Affairs Division prepares analyses of national defense and international economic programs.

STATUTORY TASKS ASSIGNED TO CBO

Listed in the order in which they appear in the Congressional Budget Act of 1974 (Public Law 93-344). Citations are to the U.S. Code and, in parentheses, to section numbers of Public Law 93-344.

1. In general, provide information to the two Budget Committees on all matters within their jurisdictions, 2 USC 602(a), (202(a)).

2. On request, provide information to the appropriating and taxing committees, 2 USC 602(b), (202(b)).

3. On request of any other committee, provide information compiled under 1 and 2 plus, "to the extent practicable," additional information that may be requested, 2 USC 602(c)(1), (202(c)(1)).

4. On request of a Member, provide information compiled under 1 and 2 plus "to the extent available," additional information that may be requested, 2 USC 602(c)(2), (202(c)(2)).

5. Perform the duties and functions formerly performed by the Joint Committee on Reduction of Federal Expenditures, 2 USC 602(e), (202(e)), see also 31 USC 571.

6. Annually on or before April 1, furnish to the Budget Committees a report on fiscal policy for the next fiscal year, to include a discussion of alternative levels of revenues, budget authority, outlays, and tax expenditures, plus alternative allocations among major programs and functional categories, all in the light of major national needs and the effect on "balanced growth and development of the United States," 2 USC 602(f)(1), (202(f)(1)).

7. From time to time, furnish the Budget Committees such further reports as "may be necessary or appropriate," 2 USC 602(f)(2), (202(f)(2)).

8. Develop and maintain filing, coding, and indexing systems for all information obtained by CBO from the Executive Branch or from other agencies of the Congress, 2 USC 603(b), (203(b)).

9. With respect to each committee bill providing new budget authority, furnish to the reporting committee for its consideration: (a) a comparision of the bill with the

most recent concurrent resolution on the budget, (b) a five-year projection of outlays associated with the bill, and (c) the amount of new budget authority and resulting outlays provided by the bill for state and local governments, 31 USC 1329(a)(1), (308(a)(1)).

10. With respect to each committee bill providing new or increased tax expenditures, furnish to the reporting committee for its consideration: (a) a report on how the bill will affect the levels of tax expenditures most recently detailed in a concurrent resolution on the budget, and (b) a five-year projection of the tax expenditures resulting from the bill, 31 USC 1329(a)(2), (308(a)(2)).

11. Periodically, issue a scorekeeping report on the results of Congressional actions compared with the most recently adopted concurrent resolution on the budget, plus status reports on all bills providing new budget authority or changing revenues or the public debt limit, plus up-to-date estimates of revenues and the public debt, 31 USC 1329(b), (308(b)).

12. Annually, "as soon as practicable after the beginning of each fiscal year," issue a five-year projection of budget authority and outlays, revenues and tax expenditures, plus the projected surplus or deficit, year by year, 31 USC 1329(c), (308(c)).

13. Prepare "to the extent practicable" a five-year cost estimate for carrying out any public bill or resolution reported by any committee (except the two appropriating committees), 31 USC 1353, (403).

14. Study jointly with the Office of Management and Budget, but report separately, on the feasibility and advisability of year-ahead budgeting and appropriating, the report to be made by February 24, 1977, 31 USC 1020 note, (502(c)). (The report was submitted on that date.)

15. Cooperate with the Comptroller General in the development of standard fiscal terminology, 31 USC 1152 (a)(1), (801(a)), (Sec. 202(a)(1) of the Legislative Reorganization Act of 1970).

16. Cooperate with the Comptroller General in developing an inventory of fiscal information sources, providing assistance to the Congress in obtaining information from

those sources, and furnishing, on request, assistance in appraising and analyzing information so obtained, 31 USC 1153(b), (801(a)), (Sec. 203(b) of the Legislative Reorganization Act of 1970).

17. With the Comptroller General, establish a central file or files "of the data and information required to carry out the purposes of this title," 31 USC 1153(c), (801(a)), (Sec. 203(c) of the Legislative Reorganization Act of 1970).

18. Cooperate with the Office of Management and Budget in providing useful federal fiscal information to State and local governments, 31 USC 1153(d), (801(a)). (Sec. 203(d) of the Legislative Reorganization Act of 1970).

CHAPTER 7

THE COST ACCOUNTING STANDARDS BOARD

INTRODUCTION

The Cost Accounting Standards Board was established by the Congress in August 1970 (Public Law 91-379) to act as its agent in creating uniform and consistent cost accounting principles to be followed throughout the Government. The Board was formally organized in January 1971 following the initial appropriation of funds for its activities.

ORGANIZATION OF THE BOARD

The Comptroller General of the United States is the Chairman of the Cost Accounting Standards Board and, pursuant to the law, he has appointed four Board members to serve with him. The members represent the views of Government, industry, the accounting profession, and the academic community and are appointed for a term of 4 years each.

In addition, the Board is served by an Executive Secretary, a General Counsel, and a full-time staff, which at October 15, 1978, included 17 professionals and 10 administrative and clerical personnel. In selecting and recruiting staff, the board has been able to maintain the same balance of representation evidenced by the backgrounds of the Board members. The Board carries out its operations from its headquarters, located in Washington, D.C.

PRINCIPAL FUNCTIONS

The Board's primary goal is to issue clearly stated Cost Accounting Standards to achieve (1) an increased degree of uniformity in accounting practices among Government contractors and (2) consistency in accounting treatment of costs by individual Government contractors.

A Cost Accounting Standard is a statement formally issued by the Cost Accounting Standards Board that (1) enunciates a principle or principles to be followed, (2) establishes practices to be applied, or (3) specifies criteria to be employed in selecting from alternative principles and practices in estimating, accumulating, and reporting costs of contracts subject to the rules of the

Board. A Standard may be stated in terms as general or as specific as the Cost Accounting Standards Board considers necessary to accomplish its purpose.

Increased uniformity and consistency in accounting are desirable to the extent they improve understanding and communication, reduce the incidence of disputes and disagreements, and facilitate equitable contract settlements.

DEVELOPMENT OF STANDARDS

Before the promulgation of any Standard, the Board makes an in-depth study of the subject area. It includes extensive research and careful testing of alternative proposals. Although the precise nature of the research varies somewhat, depending upon the subject under consideration, certain basic elements of the research procedure are followed each time.

After a topic has been authorized by the Board for research, authoritative materials on the subject are reviewed, including sources such as books and theses, Government procurement regulations, pronouncements of accounting and regulatory groups, Court and Board of Contract Appeals decisions, Government agency reports of problems, and Disclosure Statements filed by contractors with the Board. At the time of reviewing these materials, issues and sources of problems related to the topic under research are identified, e.g., lack of recognition of underlying cost concepts, inadequacy of guidelines, misunderstanding in interpreting exisiting regulation.

Concurrently, the initial phase of liaison with various contractors and governmental agencies is begun through correspondence, telephone conversations, personal interviews, or plant visits to obtain empirical data and to discuss actual practices and the underlying accounting concepts.

Based on this research, a preliminary draft of a proposed Standard is developed which is discussed with appropriate groups such as professional accounting associations, contractors, and Government agencies. After comments on this preliminary draft are analyzed, the Board publishes a proposed Cost Accounting Standard in the Federal Register. After this initial publication, a number of contractors and Government agencies are visited to discuss further all aspects of the proposed Standard, with additional special emphasis on the anticipated administrative costs of implementation and the probable benefits to be achieved through adoption of the Standard.

On the basis of careful consideration of all comments submitted by the public and the further discussions with outside organizations, the Board makes appropriate revision of the proposed Standard and publishes it for the second time in the Federal Register.

Standards promulgated by the Board are sent to the Congress at the time of the second publication in the Federal Register. The Standards become effective unless the Congress, within 60 days of continuous session, passes a concurrent resolution stating in substance that it does not favor the proposed Standards. The Board's promulations have the full force and effect of law.

A schema of the Board's research process is shown in the Appendix to this chapter.

STANDARDS PROMULGATED

As of October 15, 1978, the Board had promulgated 16 Cost Accounting Standards. The first two require (1) consistency in estimating, accumulating, and reporting costs and (2) consistency in allocating costs incurred for the same purpose and in like circumstances. These two Standards, together with the Disclosure Statement which was promulgated in the initial year of the Board's operation, provide that individual contractors must follow cost accounting practices uniformly for all covered contracts at any given point in time.

The Board also promulgated Standards covering (1) the allocation of home office expenses to segments, (2) the capitalization of tangible assets, (3) the accounting for allowable costs, (4) the base periods for allocating indirect costs, (5) standard costs, (6) accounting for compensated personal absence. (7) depreciation, (8) allocation of business unit expenses to final cost objectives, (9) accounting for costs of material, (10) pension cost, (11) cost of money (12) accounting for deferred compensation, and (13) insurance costs.

In addition, the Board had in various stages of research and development, potential Standards dealing with a variety of accounting subjects. Selection of specific areas for research is based primarily on (1) relationship to the objectives of Public Law 91-379, (2) significance of observed costing problems, and (3) relationship to other work of the Board.

RESPONSIBILITIES FOR COMPLIANCE WITH PROMULGATIONS OF THE BOARD

The basic responsibility for securing compliance by contractors with Board promulgations rests with the relevant Federal contracting agencies. They are responsible for such things as:

1. Incorporating all applicable Board promulgations into their procurement regulations;

2. Including the contract clause in all covered contracts;

3. Receiving Disclosure Statements;

4. Reviewing and approving the adequacy of such Statements;

5. Reviewing contractors' records to determine whether or not contractors have (a) followed consistently their disclosed cost accounting practices and (b) complied with promulgated Cost Accounting Standards;

6. Making appropriate contract price adjustments because of changed accounting practices, failure to follow existing Standards, or the issuance of new Standards; and

7. Evaluating the validity of claims by contractors for exemptions, under criteria established by the Board, or exclusions as established by Public Law 91-379.

It should be noted that Section 719(j) of the act gives to any authorized representative of the agency head concerned, of the Board, or of the Comptroller General of the United States, the right to examine and make copies of any documents, papers, or records relating to compliance with Board promulgations.

Another element of compliance concerns the manner in which relevant contracting agencies implement the requirements established by the Board. Special and recurring reviews of agencies' compliance with Board promulgations should be performed by the agencies' internal review staffs and by the U.S. General Accounting Office.

The Board has retained the responsibility for evaluating the effectiveness of the Standards, rules, and regulations that it promulgates. Most of the Board's evaluative needs can be met by reviewing reports from contracting and audit organizations. To this end, the Board and the major contracting agencies have worked cooperatively to establish reporting requirements which have been embodied in the agencies' procurement regulations.

RELATIONSHIP OF THE BOARD TO OTHER AUTHORITATIVE BODIES

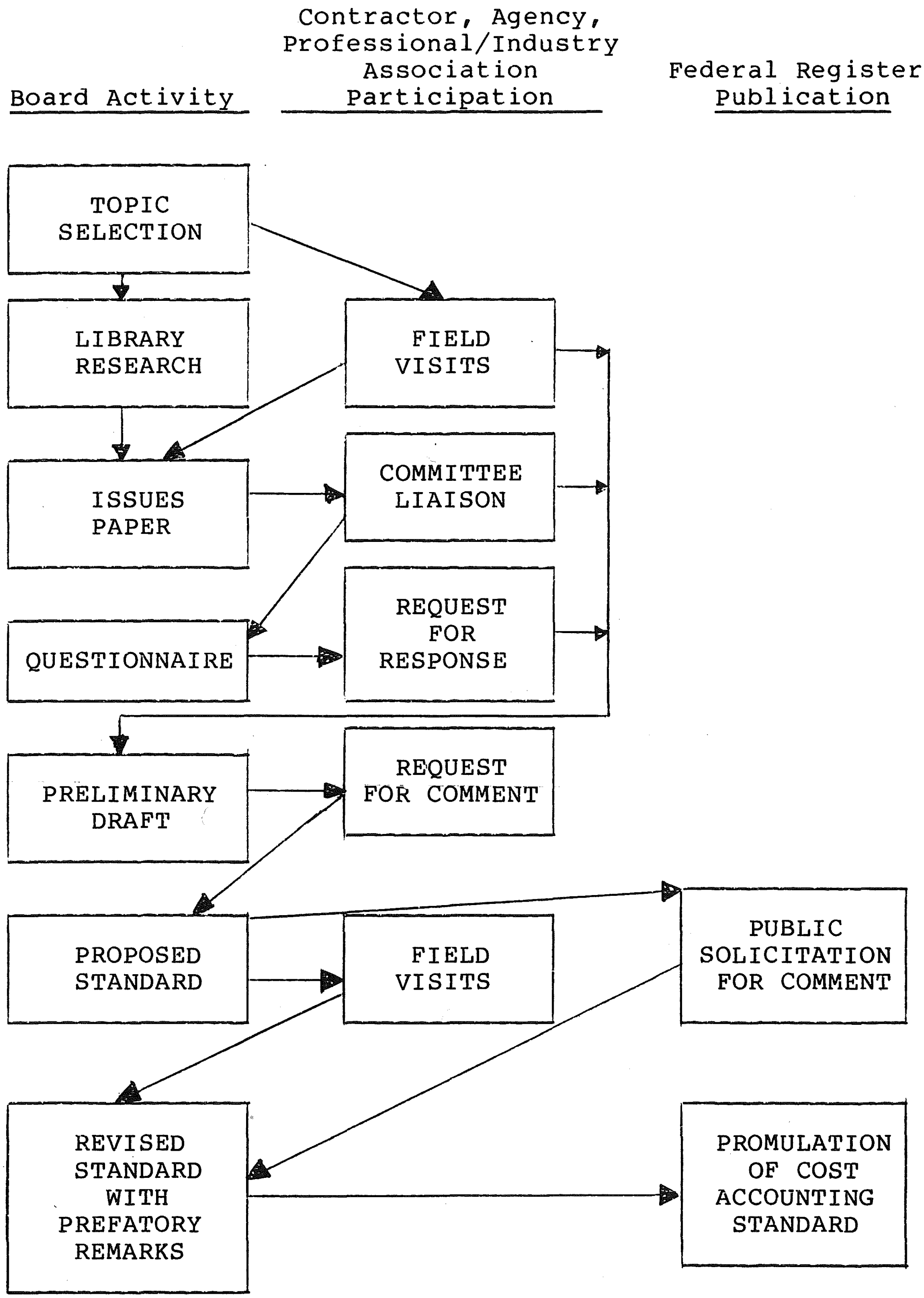
A number of authoritative bodies have been established to issue pronouncements affecting accounting and financial reporting. The Cost Accounting Standards Board views its work as relating directly to the preparation, use, and review of accounting data in the negotiation, administration, and settlement of negotiated defense contracts. The Board is the only body established by law with the specific responsibility to promulgate Cost Accounting Standards.

There are many accounting areas of interest to the Board which are also of interest to others for financial and tax accounting purposes, such as: the measurement of costs in general; determination of the amount assigned to a resource to be consumed in operations; allocation of the cost of resources consumed to time periods; and allocation of direct labor, direct material, and factory overhead to the goods and services produced in a period.

Promulgations by the Cost Accounting Standards Board may involve areas of interest to other authoritative bodies. Contract cost accounting often deals with the same expenditures and the same problems of allocation to time periods as are of interest in financial and income tax accounting.

The Board seeks to avoid conflict or disagreement with other bodies having similar responsibilities and will through continuous liaison make every reasonable effort to do so. The Board has stated that it will give careful consideration to the pronouncements affecting financial and tax reporting, and in the formulation of Cost Accounting Standards it will take those pronouncements into account to the extent it can do so in accomplishing its objectives. The nature of the Board's authority and its mission, however, is such that it must retain and exercise full responsibility for meeting its objectives.

THE BOARD'S RESEARCH PROCESS



CHAPTER 8

THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

INTRODUCTION

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management policies and practices throughout the government.

ORIGIN AND HISTORY

In 1947 Lindsay C. Warren, the Comptroller General of the United States initiated a cooperative financial management improvement effort with James E. Webb, Director of the Bureau of the Budget, and John W. Snyder, Secretary of the Treasury. After preliminary work by the staffs of the three agencies, and with the staff of the Senate Committee on Expenditures, Mr. Warren sent a letter dated October 20, 1948, to the heads of departments and agencies announcing the establishment of the Joint Accounting Improvement Program. In part, his letter said:

> "The Program contemplates the full development of sound accounting within each agency, as a working arm of management, in terms of financial information and control. At the same time it envisions an integrated pattern of accounting and financial reporting for the Government as a whole responsive to executive and legislative needs. Balanced recognition will be given to the need for a flexible basis for accounting development within agencies in the light of varying types of operations and to overall fiscal, reporting, and audit responsibilities. The accounting and reporting principles, standards, and basic procedures established will take into consideration the various areas of responsibility involved, the elimination of overlapping operations and paper work, and the fuller application of efficient methods and techniques in accounting operations through the Government."

The heads of the three central agencies followed up on January 6, 1949, with a general statement of policies and objectives. They expressed agreement on the following basic principles:

1. Current accounting and financial reporting are proper functions of the Executive Branch and accounting systems prescribed by the Comptroller General should be in recognition of this as a fundamental principle.

2. Audit, independent of the Executive Branch, is an essential and proper function of the General Accounting Office and properly designed accounting systems are vital factors to the effectiveness of such independent audit.

3. Accounting systems should be developed as a cooperative undertaking as an essential to meeting the needs and responsibilities of both the Executive and Legislative Branches of the Government.

Initial improvement efforts dealt mainly with the accounting and auditing practices of the Government. However, the central and operating agencies recognized that, if maximum benefits from the accounting changes were to be obtained by the managers at every level of agency operations, the area of improvement had to be broadened to cover the full spectrum of financial management.

This initial experience under the Program led to the development and passage of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 65). The act specifically identified responsibilities for budgeting, accounting, auditing, and financial reporting in the Federal Government, and it also provided the central agencies with broad legal authority for the Program. Section III stated, as the policy of Congress that:

"(f) The Comptroller General of the United States, the Secretary of the Treasury, and the Director of the Bureau of the Budget conduct a continuous program for the improvement of accounting and financial reporting in the Government.

With the scope of the Program expanded, efforts were directed toward improving those budgeting, reporting, and related financial management practices that would assist agency managers in their program planning, execution, and control. The Program was redesignated the Joint Financial Management Improvement Program in December 1959.

At the request of the Principals of the Joint Program, the Chairman of the Civil Service Commission (now the Office of Personnel Management) joined the Program in 1966 to assist in the personnel aspects of financial management.

GOALS AND OBJECTIVES

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the Government so that they will contribute significantly to the effective and efficient planning and operation of governmental programs. Activities aimed at achieving this objective include:

--Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.

--Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.

--Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.

--Undertaking special projects of a Government-wide nature to resolve specific problems.

--Providing advisory services in dealing with specific financial management problems.

ORGANIZATION AND OPERATIONS

Leadership for JFMIP is provided by the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Director of the Office of Personnel Management.

Each JFMIP Principal has designated a representative to serve on a Steering Committee that is responsible for the general direction of JFMIP. The Steering Committee coordinates central agency improvement efforts on Government-wide matters and selected improvements within individual agencies.

An Executive Director, also a member of the Steering Committee, is responsible for developing and directing programs and projects. The head of each operating agency has designated a liaison officer to serve as a point of contact on matters related to JFMIP.

JFMIP carries out a variety of activities aimed at achieving its established goal and objectives. It sponsors conferences, workshops, and seminars. It publishes a periodic news bulletin and various other documents to disseminate information on progressive financial management practices and promotes their widespread application. It reviews the management improvement efforts of the operating agencies and coordinates financial activities of the central agencies. JFMIP sponsors and conducts studies on financial management matters and assists operating agencies in dealing with financial management problems, particularly those that have relevance to other programs and agencies.

A number of projects are carried out through interagency as well as intergovernmental project teams organized by JFMIP. Such teams may include staff members from central and operating agencies as well as State and local governments. Some financial management problems may be dealt with by referral to a source of expertise, some by assignment to one of the central agencies and some by informal consultation.

JFMIP serves as a catalyst to stimulate action by whatever approach suits the circumstances. Achievement of financial management improvements depends heavily on the interest and active participation of personnel from the central agencies and operating agencies. In some cases there also is need for close working relationships with State and local Governments. JFMIP plays a key role in mobilizing resources and coordinating cooperative efforts.