

Financial Handbook For Federal Executives And Managers

Financial Management Improvement Program

November 1984

000 - 0000

**FINANCIAL HANDBOOK FOR FEDERAL EXECUTIVES
AND MANAGERS**

November 1984

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.

FOREWORD

In the past, general and program managers in the Government could get by with having little or no knowledge of financial management activities in their agencies. This is no longer true.

The passage of the Federal Managers' Financial Integrity Act of 1982 made it clear that managers, not accountants or auditors, are primarily responsible for internal control. The Debt Collection Act, the Spending Reduction Act and others expand the role of general and program managers to make them responsible for those things that traditionally have been the sole provinces of financial managers.

With rapid advances and sophistication in computer and communication technologies, general and program managers are now capable of having up-to-date management and financial information literally at their fingertips. This means that general and program managers need to play a very active part in deciding what information is needed, when it is needed, and how it should be presented. They cannot afford not to be active participants in financial systems design.

With the large Government deficit and high Government expenditures, there is a tremendous need for managers to be cost conscious and to save the taxpayers money. A way to accomplish this goal and to achieve other objectives is to improve the financial procedures and practices within an organization and to take advantage of the full array of services financial managers can provide.

This Handbook was initially issued in 1981 to help nonfinancial managers understand financial management and to encourage a closer working relationship among financial and nonfinancial managers. It has been revised and updated to reflect the latest developments. With simple and nontechnical terms, the Handbook provides background information to enhance the knowledge of financial management.

We take this opportunity to express our appreciation to all of the agency officials who assisted us in the development of this revised Handbook. We hope that this Handbook will be useful in improving the efficiency and effectiveness of Government organizations.

Susumu Uyeda
Executive Director
November 1984

C O N T E N T S

<u>CHAPTER</u>		<u>Page</u>
	Foreword	i
I	Introduction	1
II	Functions of the Central Agencies	4
III	Budget Preparation	8
IV	Administrative Control of Funds	15
V	Accounting Systems	18
VI	Financial Reporting	21
VII	Internal Control	25
VIII	Cash Management/Debt Collection	29
IX	Assuring Proper Payments	34
X	Productivity and Performance Measurement	38
XI	Special Cost Studies	41
XII	Property and Inventory	44
XIII	Federal Assistance Programs	47
XIV	Procurement	51
XV	Auditing	54
XVI	Training and Development of Financial Staff	60

CHAPTER I

INTRODUCTION

Financial management is that part of management concerned primarily with the fiscal affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. Financial management covers a broad spectrum of management activities including budgeting, accounting, reporting, cash management, internal control, auditing, management analysis, productivity and performance measurement, and training.

In recent years, Federal executives and managers have become more and more aware of the importance of good financial management systems and practices. They realize the need for a strong and capable financial management staff to enable them to better manage their operations. They also realize that financial management staffs can provide great assistance in overseeing and assuring that the missions of their organizations are accomplished efficiently, effectively and timely. One of their goals is to be cost efficient and to save the taxpayers money. With Federal expenditures increasing each year, management should employ every practical means to cut costs within their organizations. A way to accomplish this goal and others is to improve the financial management procedures and practices within each organization and to take greater advantage of the full array of services financial managers can provide. This requires a close working relationship among financial managers, general managers and program managers.

To initiate improvements, top executives and managers need information on past and current operations so that they can control, coordinate and plan activities, and make decisions within their organizations. The Budget and Accounting Procedures Act of 1950 places the responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of the agency. The Act also requires that such systems provide for:

1. Full disclosure of the financial results of the agency's activities;
2. Adequate financial information needed for the agency's management purposes;
3. Proper consistency in accounting and budget classifications;
4. Accurate support of budget justifications with cost and performance data;

5. Effective control over accountability and appropriate internal audit for all funds, property and other assets for which the agency is responsible;
6. Reliable accounting results to serve as the basis for preparing and supporting the agency's budget requests, controlling the execution of the budget, and providing financial information required by the President; and
7. Suitable integration between agency accounting of transactions with those in the central accounting system maintained by the Treasury Department.

With the passage of the Federal Managers' Financial Integrity Act of 1982, the head of each executive agency is required to prepare an annual statement indicating the adequacy of the agency's accounting and administrative controls. Implementing guidelines issued by the Office of Management and Budget provide that the designated internal control officials and heads of organizational units within the agency are responsible for ensuring the performance of necessary control evaluations and providing assurance to the agency head. All other agency managers are responsible for operating effective and efficient systems of internal or management control, periodically evaluating the control systems, and taking timely corrective actions on all known weaknesses. Line managers from top to bottom--in particular--are responsible for developing, implementing, and maintaining an effective and efficient internal management control system as an integral part of the systems used to operate the organization's programs and functions. Internal control accounting systems are not the exclusive provinces of the accountants and auditors and the responsibilities must be shared by financial managers, general managers and program managers. Accordingly, closer coordination and cooperation need to be fostered among all managers.

Furthermore, the Congress tends to pass more and more specific legislation concerning financial management such as the Prompt Payment Act, Debt Collection Act and the Spending Reduction Act. Since these acts have an effect on general and program management, a close working relationship is both vital and essential to the successful agency management and mission accomplishments. In addition to the requirements in the Acts cited, other legislative requirements are found in the authorization and appropriation laws governing each Government agency. These laws contain provisions relating specifically to expenditure limitations, ceilings on the rate of obligations, financial reporting, auditing requirements and special evaluations. Each agency head must incorporate these requirements and features into the agency's accounting and control systems. These systems must also comply with the policy guidelines of the General Accounting Office, the Office of Management and Budget, and the Department of the Treasury.

This Handbook was prepared to help nonfinancial managers understand financial management and to encourage a closer working relationship between financial and nonfinancial managers. Using simple and nontechnical terms as much as possible, it provides background material to enhance the knowledge of financial management. The Handbook can be used also by the financial managers as a simple checklist to review their own operations.

Chapter II provides a brief summary of the roles and responsibilities of the central management agencies--the Office of Management and Budget, the Department of the Treasury, the General Accounting Office, the Office of Personnel Management, and the General Services Administration. In the remaining chapters, the Handbook covers 14 major areas of financial management including: budget preparation, administrative control of funds, accounting systems, financial reporting, cash management and internal control. In each chapter, a narrative background of the subject matter is provided, followed by a series of questions top executives and managers may ask in their meetings with the financial management staffs. These questions are designed to enable nonfinancial managers to:

1. Familiarize themselves with the subject area,
2. Pinpoint potential problem areas,
3. Establish plans to make financial management more useful and responsive to management, and
4. Emphasize top management interest and reliance on financial management.

Finally, for those who desire to know more about the subject area, several suggested references are provided at the end of each chapter. Additional information can be found in each agency's internal policy and procedural manuals that implement central agencies' guidance and set agency operating procedures.

CHAPTER II

FUNCTIONS OF THE CENTRAL AGENCIES

The central agencies that provide overall direction and guidance to departments and agencies on financial management policies and practices include the Office of Management and Budget, the Department of the Treasury, the General Accounting Office, the Office of Personnel Management, and the General Services Administration. This chapter briefly highlights the principal functions of these agencies. In addition, the major objectives and activities of the Joint Financial Management Improvement Program are described.

The OFFICE OF MANAGEMENT AND BUDGET assists the President in the development and effective management of Federal programs. Its primary functions are to:

- Assist the President in the preparation of the budget and the formulation of the fiscal program for the Federal Government.
- Supervise and control the administration of the budget.
- Assist the President in the 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.
- Evaluate the performance of Federal programs and serve as a catalyst for improving interagency and intergovernmental cooperation and coordination.
- Assist the President by clearing and coordinating proposed legislation initiated in the Executive Branch and make recommendations for Presidential action on bills passed by the Congress.
- Assist in the development of regulatory reform proposals and in programs for paperwork reduction, especially reporting burdens on the public.
- 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 overlap and duplication.

In addition, the OFFICE OF FEDERAL PROCUREMENT POLICY within the Office of Management and Budget was created to improve the economy, efficiency and effectiveness of the procurement of

property and services by agencies. One of its major functions is to establish a system of uniform and coordinated procurement policies.

The DEPARTMENT OF THE TREASURY provides centralized fiscal services for the Federal Government. It estimates the Government's financial needs; collects, maintains and disburses Federal funds; and records and reports this financial information. Its major functions are to:

- Act as the Government's treasurer and be responsible for the Government's cash management policy and procedures.
- Provide services in support of the management of the public debt.
- Act as the Government's banker for the collection and disbursement of funds.
- Maintain a system of central accounting and reporting to provide a consolidated record of the Government's financial transactions.
- Determine the reporting requirements necessary to gather financial management data, work with agencies to insure the integrity of financial data reported, and establish central accounting and reporting policy for the Federal Government.
- Issue instructions on central accounting and reporting, payroll, disbursing, and deposit regulations.

The GENERAL ACCOUNTING OFFICE is primarily responsible for assisting the Congress in its oversight of the Executive Branch in carrying out programs enacted by the Congress. The General Accounting Office audits and evaluates programs, activities and financial operations of Federal departments and agencies and their contractors and grantees, and makes recommendations for improving the efficiency and effectiveness of Government operations. The General Accounting Office has statutory authority to investigate all matters relating to the receipt, disbursement and application of Federal funds. In the financial management area, it is primarily responsible for:

- Prescribing accounting principles, standards and related requirements to be formulated by the Executive Branch; cooperating in the development and improvement of agency accounting and financial management systems; and reviewing and approving agency accounting systems in operation.
- Auditing the programs, activities, financial transactions, and accounts of the Federal Government and reporting audit results to the Congress and agencies.

- Making overall analyses of identified fraudulent or potentially fraudulent practices to identify controls and audit approaches designed to prevent or minimize opportunities for fraud.

In carrying out its audit responsibilities, the General Accounting Office will examine the overall effectiveness of accounting systems in operation with emphasis on the (1) adequacy of internal accounting and financial controls, (2) compliance of accounting operations with the Comptroller General's principles and standards, and (3) overall ability of the accounting systems to provide the information needed by management to effectively operate the agency.

The OFFICE OF PERSONNEL MANAGEMENT is chiefly responsible for personnel policy for the Federal Government. In relationship to financial management, it has the following functions:

- Training of personnel in financial management areas.
- Reviewing and developing position classifications and qualification standards for financial management positions.
- Improving Federal employee and organizational productivity.
- Establishing, determining and accounting for employee compensation including pay, leave, retirement, insurance and benefits.

The GENERAL SERVICES ADMINISTRATION establishes policy and provides a system for the management of Government property and records including construction and operation of buildings, procurement and distribution of supplies, utilization and disposal of property, transportation, traffic and communications management, stockpiling of strategic materials, and the management of the Government-wide information resource management program. Its basic responsibilities include:

- Management of 293 million square feet of space including construction, acquisition and disposal of space for civilian agencies.
- Procurement of common goods, equipment and services for civilian agencies.
- Procurement, leasing and disposal of motor vehicles for the Government.
- Disposal of excess real and personal property.
- Formulation and issuance of civilian Government travel regulations as well as providing Government travelers with discounted transportation and lodging.

- Direction and coordination of the Government-wide programs for the management, use and procurement of automated data processing equipment, office information systems, telecommunications, and services.
- Maintenance of the Government's records and Presidential libraries.

The JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM is a cooperative and joint undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury and the Office of Personnel Management. The agencies work with each other and in cooperation with all Government agencies to improve financial management practices Government-wide. Its activities include:

- Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.
- 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 financial problems.
- Acting as a clearinghouse for sharing and disseminating financial management information about good and sound financial management techniques and technologies.
- Providing advisory services in dealing with specific financial management problems.

Suggested Reference:

Financial Management Functions in the Federal Government, Joint Financial Management Improvement Program, August 1979.

GAO Annual Report, General Accounting Office, issued annually.

The United States Government Manual, General Services Administration, issued annually.

What is JFMIP?, Joint Financial Management Improvement Program, September 1981.

CHAPTER III

BUDGET PREPARATION

The budget system of the U. S. Government provides the framework within which decisions on resource allocation and program management are made in relation to the requirements of the Nation, desirable economic and fiscal policies, availability of Federal resources, effective financial control and accountability for use of the resources. The budget process has four interrelated phases: (1) Executive formulation and transmittal, (2) Congressional action, (3) budget execution and control, and (4) review and audit. The first two phases will be discussed in this Chapter, while the other phases will be covered in later chapters.

The budget sets forth the President's financial plan of operation and indicates his priorities for the Federal Government. 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 about 18 months prior to the beginning of the fiscal year to which the budget will pertain, although general goals are set earlier.

The Budget is formulated under a multi-year budget planning system, which covers not only the budget year, but also the four fiscal years beyond the budget year. This budget planning system requires that broad fiscal goals and agency spending and employment targets be established beyond the budget year.

Executive Formulation

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), other Executive Office units, and the various Government agencies.

The President also receives projections of the economic outlook that are prepared jointly by the Council of Economic Advisors, the Office of Management and Budget, and the Department of the Treasury. 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 four years beyond. General policy directions and planning ceilings are given to the agencies to govern the preparation of their budget requests.

During the summer months, agencies prepare their budget requests in accordance with the Presidential policy directions and planning ceilings. Detailed instructions for agencies' budget

requests are published in OMB Circular A-11. In September, most agencies submit their budget requests to OMB. After they are reviewed in detail, OMB may conduct budget hearings with agency representatives to discuss program, budget and management issues of major importance.

In 1983, a management review process was initiated as an integral part of the budget review process to focus on management improvement initiatives. The emphasis on management improvements has continued, and topics targeted for special attention include information technology, payment integrity, cash management, and organization and staffing of administrative support functions.

After OMB completes its review, its overall budget recommendations are presented to the President for review and approval. At this time agency heads have one final opportunity to appeal to the President for changing the recommendations of OMB. Once approved, the budget reflects the President's recommendations for existing and proposed programs to meet the most urgent need of the country, as well as the total outlay and receipt levels appropriate to the state of the economy.

As soon as the President makes his decisions, each agency head is notified by OMB of the amounts that will be recommended to the Congress for the agency's programs for the ensuing year. When the agency receives this notification, the previous budget estimates are revised, in conformity with the President's decision, for inclusion in the formal budget document.

By law, the President transmits his budget to the Congress within 15 days after the start of each new Congressional session in January. Supplemental budget requests and amendments may be submitted later to cover unanticipated needs. The President updates the budget on or before April 10 and again by July 15, taking into account newly enacted legislation, present administration's latest economic assumptions, new recommendations and revised estimates. The law also requires him to transmit to the Congress current services estimates annually. The current services estimates represent the budget authority and outlays that would be included in the budget if all programs and activities were carried on at the same level as the fiscal year in progress and without any policy changes. This information may be used to assess the size and direction of the budget and as a base against which alternatives can be evaluated.

Congressional Action

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

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, while other 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 in appropriations acts. However, in a significant number of cases, the Congress has voted permanent budget authority under which funds become available annually without further Congressional action. Many 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 the budget estimates to the Congress. 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 in total and by functional category. The budget resolution guides 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 requests 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 differences. 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 approval or veto.

The Congress adopts, by September 15, a second concurrent resolution that affirms or revises the levels set forth in the first budget resolution on the basis of new information and data, changed economic circumstances and completed Congressional action.

The second resolution is binding with respect to minimum revenues and maximum budget authority and outlays.

Reconciliation is an optional process for the Congress to change existing law or pending legislation to bring spending and/or revenues into line with levels set in the budget resolution. Reconciliation instructions are contained in concurrent resolutions on the budget and direct designated committees to submit to the Budget Committees legislative recommendations that would change existing law under their jurisdiction. Each instructed committee is assigned targets for the revenue or spending changes that must be achieved. However, each committee has discretion to decide on the specific legislative changes to be recommended. For the most part, reconciliation instructions have focused on reductions in entitlements.

Originally, the intent of reconciliation was to make adjustments to spending laws late in the legislative process so as to make them conform to the second budget resolution. However, reconciliation has not been used for this purpose. Rather, it has been used in connection with the first resolution to help achieve its targets.

After the Congress adopts the second budget or resolution, it may not consider any spending or revenue legislation that would breach the levels specified in the resolution. The Congress may, however, adopt a new budget resolution changing the levels previously set or waive the requirement not to exceed the resolution totals.

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

Additional Agency Considerations

The confidential nature of agencies' budget submissions, request, recommendations, supporting materials and similar communications should be maintained. These documents are an integral part of the decisionmaking process by which the President resolves budget issues and develops recommendations to the Congress. Therefore, budgetary material should not be disclosed in any form prior to transmittal of the budget by the President to the Congress. The head of each agency is responsible for preventing premature disclosures of this budgetary information.

While the Congressional committees are deliberating on budget and related matters, agency representatives will be asked to testify or otherwise provide budgetary information. Agency representatives should be fully aware of the restrictions upon communications to influence legislation that are not conducted through proper channels. When testifying before any Congressional

committee or communicating with members of the Congress, the following policies apply:

1. Witnesses will give frank and complete answers to all questions.
2. Witnesses will avoid volunteering personal opinions that reflect positions inconsistent with the program or appropriation requests the President has transmitted to the Congress.
3. If statutory provisions exist for the direct submission of agency budget estimates to the Congress, witnesses will be prepared to explain both the agency submission and the request in the President's budget.
4. In responding to specific questions on program and appropriation requests, witnesses will refrain from providing plans for the use of appropriations that exceed the President's request. Witnesses, typically, bear responsibility for the conduct of one or a few programs, while the President must weigh carefully all of the needs of the Federal Government, and compare them against each other and against the revenues available to meet such needs. Where appropriate, witnesses should call attention to this difference in scope of responsibility in explaining why it is not proper for them to support efforts to raise appropriations above the amounts requested by the President.
5. Where there is a request for a written submission that will involve a statement of opinion relating to program and appropriation requests, witnesses will arrange for the reply to be provided through the head of the agency.
6. Agency representatives should be careful that their communications are not perceived to be an estimate, increase or request for an appropriation. Agency representatives are expected to support the President's budgetary decisions and seek adjustments to those decisions through established procedures for budget amendments or supplemental appropriation requests, if the agency head determines such action to be necessary.
7. The prohibition against submissions by agencies to the Congress of estimates or requests for appropriations without the approval of the President and request of either House of the Congress applies to changes in appropriation language and to changes in the limitations recommended in the budget. When an agency desires to propose such changes, written requests will be presented to the Office of Management and Budget.

The following questions may be useful in reviewing the budget preparation process in your agency.

1. What formalized internal procedures do we have for preparing our budget submission to the Office of Management and Budget consistent with Presidential policies and OMB guidelines?
2. What are the key events in our internal budget process and when do they occur? What controls do we have to assure that these events occur on time?
3. What is my role and responsibility in the budget process? How much of my personal time will be required, and when will it be required?
4. How do we establish the overall budget strategy in terms of goals and objectives? How do we surface programs that should be curtailed or eliminated?
5. Who has the final word for the budget decision in this department (agency)? How do we include the Secretary's (Administrator's) policies into the budget? Do we have a budget policy committee? If so, how does it work? If not, do we need one?
6. How far down the organization do we penetrate to flush out budget considerations? Why is this a realistic level?
7. Are the present accounting systems adequate to meet the needs of budget formulation? Are our budget requests based on actual cost and spending level data from our accounting system? Are these data reliable and consistent? If not, what improvements are necessary?
8. How do we make use of available computers to make "what-if" analyses in determining financial consequences when a number of alternatives or assumptions are being considered?
9. Are we adequately staffed to meet OMB's day-to-day demands in the final phase of the budget preparation? How do we take advantage of available computers to handle tedious, detailed and repetitive budget work?
10. What is the budget appeal process to the Director of OMB? To the President?
11. What major kinds of problems in the internal budget process did we experience in the past? Have they been resolved? If not, what can we do?
12. What authorizing and appropriation committees and subcommittees in the Congress are responsible for our programs and appropriations?

13. How do we track congressional actions on authorization and appropriation bills that concern our agency? Who prepares and who presents the testimonies before the Congressional committees? How do we insure that testimonies and other dealings with the Congress are consistent with Presidential policies?
14. What kind of legislative restrictions do we normally have on the appropriations? How much, if any, flexibility do we have in transferring funds among programs within a appropriation (reprogramming)? How much, if any, flexibility do we have in transferring funds among appropriations (appropriation transfer)?

Suggested References

Budget of the United States Government, Office of Management and Budget, Issued Annually.

Preparation and Submission of Budget Estimates, Circular A-11, OMB, July 2, 1984, Issued Annually.

Responsibilities for Disclosure with Respect to the Budget, Circular A-10, OMB, November 12, 1976.

CHAPTER IV

ADMINISTRATIVE CONTROL OF FUNDS

As discussed in the previous chapter, the President, with input from departments and agencies, submits a budget to the Congress each year. The Congress, in turn, passes legislation so that each agency will have fund authorizations (appropriations, contract authority, loan authority, etc.) for "spending" to accomplish its mission. Once the President signs the legislation, the Treasury Department prepares an appropriations warrant authorizing the amounts to be charged to each fund account (appropriation symbol).

The total amount of funds is not available for the agency's use until the Director of the Office of Management and Budget (OMB) apportions or distributes the funds to that agency. Apportionment action consists of dividing the total available funds into specific amounts for portions of the fiscal year (usually quarters) or for particular projects or activities. After the apportionments are received from OMB, agencies have internal procedures through which funds are controlled and distributed among agency components.

The Antideficiency Act prohibits any officer or employee of the United States from making or authorizing obligations or expenditures under any appropriation or fund in excess of the amount available. Obligations are formal reservations of funds for orders placed, contracts awarded or services to be rendered.

Any Government employee who violates this law will be subject to appropriate administrative discipline including, when circumstances warrant, suspension from duty without pay or removal from office. Penalties for those who knowingly and willfully violate the law include, upon conviction, fines up to \$5,000 or imprisonment for not more than two years, or both.

The Antideficiency Act also requires OMB to approve each agency regulations for administratively controlling funds. The regulations must:

- Restrict obligations or disbursements for each appropriation to the amount available.
- Enable the agency head to fix responsibility for the creation of any obligation or the making of any disbursement in excess of the amount available.
- Provide for the immediate reporting of violations through the Director of the Office of Management and Budget to the President and the Congress.

The Impoundment Control Act of 1974 provides that the Executive Branch, in regulating the rate of spending, must report to the Congress any deferrals or proposed rescissions of budget authority--that is, any effort through administrative action to postpone or eliminate spending authorized by law. Deferrals, which are temporary withholdings of budget authority, cannot extend beyond the end of the fiscal year, and may be overturned by an act of Congress. Rescissions, which permanently cancel existing budget authority, must be enacted by the full Congress. If the Congress does not approve a proposed rescission by the President within 45 calendar days of continuous session, the funds must be made available for obligation. Agencies should have internal procedures for reporting deferrals and proposed rescissions to the Office of Management and Budget in accordance with its guidelines.

If the Congress fails to enact budget authority or continuing resolutions in time, policy guidance issued by the Office of Management and Budget should be followed. This policy guidance includes:

- In the absence of new appropriations, Federal officers may incur no obligations that cannot lawfully be funded from prior appropriations unless such obligations are otherwise authorized by law.
- Under authority of the Antideficiency Act, Federal officers may incur obligations as necessary for orderly termination of an agency's functions, but no funds may be disbursed.

Specific guidance on reallocation of funds prior to shutdown, orderly shutdown activities, and requirements for agency plans are provided in OMB Bulletin 80-14.

The following questions may be useful in determining the quality of the fund control system in your organization and whether this system has been approved by OMB.

1. When was our agency's fund control regulation approved by OMB? If not approved, what is the status, and what are we doing to expedite OMB's review and approval?
2. What major problems do we have in obtaining approval from OMB? What can I do to assist?
3. Do we have plans to review and update regularly the fund control regulation? If so, are the plans adequate? If not, what are we doing to rectify the situation? When significant changes occur, what procedures do we follow to request review and approval by OMB?
4. Have we reported any violation of the Antideficiency Act (overobligations or overexpenditures) in the past two years? If so, what were they and why did they happen?

What corrective actions have been taken to assure that this does not reoccur?

5. Is our fund control system fully integrated with the accounting systems to provide complete, accurate and timely information on fund status? Have vulnerability assessments and internal control reviews performed in accordance with the Financial Integrity Act and OMB Circular A-123 disclosed any weaknesses in this area? If so, what are they and what plans do we have to rectify the condition?
6. Are the administrative controls over funds established at the highest practical level? Do we need to change the responsibility for control to a higher or lower operation level in order to make the control function more meaningful?
7. Are all managers, financial as well as program and line managers, aware of the fund control regulation and do they know their responsibilities?
8. Do we have a systematic way to report deferrals or proposed rescissions to OMB in accordance with its guidelines?
9. Do we have internal plans and procedures to follow when the Congress fails to enact budget authority or continuing resolution on time?

Suggested References:

"Antideficiency Act," 31 U.S.C. 1517, 1341-42.

"Impoundment Control Act of 1974," 31 U.S.C. 665.

Instructions on Budget Execution, Circular A-34, Office of Management and Budget, January 19, 1981.

"Federal Managers' Financial Integrity Act," 31 U.S.C. 3512(c).

Internal Control Systems, Circular A-123, Office of Management and Budget, August 1983.

CHAPTER V

ACCOUNTING SYSTEMS

The Comptroller General of the United States, in consultation with the Director of the Office of Management and Budget and the Secretary of the Treasury, is required by the Accounting and Auditing Act of 1950 to prescribe the principles and standards and related requirements for accounting systems. The head of each executive agency is responsible for establishing and maintaining systems of accounting and internal control, which conform to the principles, standards and related requirements prescribed by the Comptroller General. The Act also provides that these systems are subject to review and approval by the Comptroller General.

Accounting system, in this application, is the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds and organizational components. It is comprised of the various operations involved in authorizing, recording, classifying, and reporting financial data related to financing sources, gains, expenses, losses, transfers out, assets, liabilities, and equity. It encompasses the procedures and processes from the point a transaction is authorized (initiated) through processing the data (either manually or automatically) to issuance of financial and management information statements and reports containing the data in detail or summary form.

In designing and operating accounting systems, agency heads should comply fully with the Comptroller General's principles, standards, and related requirements and other legislative requirements. Moreover, the accounting systems should fully meet all internal (agency) and external (Treasury, OMB, Congress, etc.) needs for cost and other financial data, especially to be used in making management decisions. Accounting systems should be a part of the overall planning, programming, budgeting, controlling, reporting and auditing cycle and should be appropriately integrated. The accounting systems should provide not only a basis for control over funds, property, and other assets, but also an accurate and reliable basis for developing and reporting cost and performance data by major organizational segment, budget activity, and program structure wherever appropriate and useful.

The head of each executive agency is responsible for continuously bringing about necessary improvements in the accounting systems within the agency. Accounting systems should be more than just fund accounting systems; they should provide timely, accurate and complete information which may be used in decisionmaking. Before embarking on major systems developmental work, each agency should take the following actions:

- Establish and issue internal financial management systems guidance including a statement of objectives, and assign

overall responsibility and specific assignments to the individual(s) to insure full implementation;

- Inventory and evaluate agency systems for compliance with GAO's principles and internal control standards, and the general adequacy of the systems to meet an agency's needs;
- Develop an agency financial management systems plan for an integrated and streamlined system approved by the agency head. The plan should include specific milestones and cost estimates and will be used by OMB as part of the management reviews to be performed under the budget formulation process.

The General Accounting Office is responsible for the approval of agencies' operational accounting systems. Unlike in the past, GAO will now review and approve only accounting systems in operation. Upon request, GAO will provide consultative assistance to executive agencies in the development and operation of their systems to the extent staff resources permit.

The Federal Managers' Financial Integrity Act of 1982, in part, requires the head of each agency to report annually whether its accounting system conforms to the principles, standards and related requirements prescribed by the Comptroller General. Those requirements are found in "Title 2, Accounting" of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. Where areas of nonconformity exist, the annual reports should include a schedule of corrective actions. Steps should be taken subsequently to monitor the implementation of the planned improvement efforts.

The following questions may be useful in determining the status and the general quality of the agency's accounting systems.

1. What accounting systems does the agency currently have?
2. Are the present accounting systems fully responsive to the reporting requirements of the Treasury, OMB and the Congress? If not, what are we doing to make the systems more responsive?
3. Do we have a long-range plan to streamline and upgrade our accounting system with milestones and cost estimates? Are we executing according to the plan? Do we have sufficient resources to meet the plan? If not, what is the problem and what can we do about it?
4. Do the present accounting systems fully meet the needs of internal management as identified in our overall plan for financial management systems? Are the accounting systems adequately integrated with planning, programming and

budgeting activities? If not, what are we doing about the situation?

5. Do we have adequate ADP resources to perform the necessary automated accounting and financial management functions? How are we exploring the application of microcomputers to enhance our accounting functions?
6. In complying with the Financial Integrity Act, did we report any major deficiencies in our accounting systems? If so, what are our plans to correct weaknesses in the system? What can I do to expedite this process?
7. Is our statement prepared under Section 4 of the Financial Integrity Act concerning compliance of our accounting system with Comptroller General's principles and standards supported by adequate evaluations of the operation of our accounting system, including appropriate testing? What major differences were reported and what are we doing to correct them?
8. Are there any recent audit or other reports that recommended improvements to our accounting systems? What are our plans and time schedules for implementing them?

Suggested References:

Budget Execution, Circular No. A-34 (Revised), Office of Management and Budget, January 19, 1981.

"Controls and Risk Evaluation (CARE) - Based Audit Methodology to Review and Evaluate Agency Accounting and Financial Management Systems," (Exposure Draft), General Accounting Office, 1984.

Draft Guidelines for Evaluating, Improving, and Reporting Upon Financial Management/Accounting Systems in the Federal Government, Office of Management and Budget, September 29, 1983.

Policy and Procedures Manual for Guidance of Federal Agencies, General Accounting Office.

Treasury Financial Manual, Volume I, Department of the Treasury.

CHAPTER VI

FINANCIAL REPORTING

Today's top Federal Government policymakers are more dependent than ever on complete, accurate, consistent and timely financial data to manage their operations efficiently and effectively. Demands to fund current programs as well as to provide for new investments require accurate financial information for making sound resource allocation decisions. To control the cost of an agency's operations, Federal managers must know what each service and program costs and why.

Financial reports must not only be prepared for each level of management when they are needed, but also in a format that is readily understandable and useful. The objectives of financial reports are:

1. Determining compliance -- To show that the agency is staying within Congressional and other spending limits, aging receivables and payables periodically for proper disposition, maintaining financial control over inventory and other property, etc.
2. Assessing performance -- To analyze cost and performance data for evaluating efficiency of agency activities; assuring that operations are meeting the established objectives, enhancing continued improvements in productivity, etc.
3. Meeting external reporting requirements -- To submit reports required by the Congress, the President and the central financial management agencies.
4. Making resource allocation decisions -- To assist in the formulation and approval of the Federal budget and day-to-day operating decisions on how available resources (employees, consultants, office space, etc.) will be used to accomplish agency missions.

There are three distinct basis for financial reporting:

- Cash-basis reporting is essential in managing fiscal, debt and credit policies.
- Obligation-basis reporting is essential in monitoring the agency's commitments for future payments. Obligations occur when placing orders, awarding contracts and engaging in other activities that will consume resources when carried out.
- Accrual basis reporting is essential in determining the costs per unit of delivered services or goods or in making

trend analyses. Costs are recognized when resources are consumed, and revenues are recognized when earned.

Within an agency the financial reports should be tailored to the specific needs and use of executives and managers at different levels. For top executives, a summary or aggregate report may suffice, while operating managers may require detailed reports by program, function, activity and subactivity. Frequency of the reports must also be given due consideration. With the advancement in computer and communication technologies, many agencies are using systems with the capability to automatically query the computer data bank by using remote terminals. This enables managers to obtain the information when they need it, rather than having to wait for the weekly, monthly, or quarterly reports.

The following questions should stimulate improvements in financial reporting.

Determining Compliance

1. What types of reports do our managers receive on funds authorized, funds spent, and funds still available? How is accuracy, completeness, consistency and timeliness assured in preparing these reports? Are reports prepared on aging of accounts receivable and payable, significant fluctuations of inventories and other items of general interest?
2. How do we evaluate the usefulness of the financial reports? How do we determine if these reports properly and adequately provide for narrative analyses and suggested actions or decisions to be made?
3. How do we know that details in the financial reports are sufficient to meet the diverse needs of the different levels in our management hierarchy? How is the frequency of reporting tailored to the requirements of these different levels?
4. What changes have we made or plan to make to the reports and the data to better serve our managers? Are we planning to review current reports and eliminate those which are not needed?

Assessing Performance

1. How do the reports provide for accurate, complete and timely cost and performance information by programs, functions, activities and subactivities? What is our method for comparing actual costs and performance with budgeted cost and performance data and explaining any deviations? Where appropriate, are unit costs computed and compared with budgeted unit costs? If not, what are our plans to do so in the future?

2. Do these reports properly and adequately highlight good and poor performance? How are these reports integrated into our management's decision-making process?
3. What type of monitoring system has been implemented to hold our managers accountable for avoidable excessive costs and inefficiency? What type of incentives exist to reward our managers for their cost savings and efficiency?
4. What type of incentives are used to control costs and improve efficiency? How can we do more in this area?

External Reporting

1. What controls have been implemented to assure that external reports are submitted on time?
2. How is verification performed on the information in external reports to assure agreement and compatibility with agency reports? Do we reconcile the differences in a timely manner and correct any discrepancies?
3. Have we received, from the recipients of our reports, any complaints or repetitive inquiries concerning our reports? What are they and what are we doing to avoid them in the future?
4. Since we use considerable resources to prepare external reports, how do we use them to review and evaluate our own operations?

General

1. Are we looking into the feasibility of installing remote terminals so that our managers can access data when and in the form they want them? What types and how many of the recurring hard-copy reports can be eliminated by the use of such terminals?
2. To what extent are we taking advantage of modern computer and communication technology in transmitting external reports rather than preparing and sending hard copies? Where can we do more in this area?
3. How frequently are the different types of reports or data audited or reviewed? If there have been any reported weaknesses, what are we doing to correct them?

Suggested References:

Federal Financial Transactions, Department of the Treasury, June, 1980.

Managers, Your Accounting System Can Do a Lot for You, General Accounting Office, 1979.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office.

Treasury Financial Manual, Volume I, Part II, Department of the Treasury.

CHAPTER VII

INTERNAL CONTROL

Internal control is defined as: The plan of organization and methods and procedures adopted by management to provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Accounting controls establish a framework which is intended to provide assurances to managers that assets are safeguarded and that financial transactions recorded and reported properly. Administrative controls are designed to provide a control structure to carry out other organizational objectives such as planning, productivity, programmatic quality, economy, efficiency and effectiveness.

The Accounting and Auditing Act of 1950 requires the head of each agency to establish and maintain adequate systems of internal control. The Federal Managers' Financial Integrity Act of 1982 amended the former Act to require ongoing evaluations and reports on the adequacy of the systems of internal control of each executive agency. The internal accounting and administrative controls of each executive agency should provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

As required by the Federal Managers' Financial Integrity Act, the Comptroller General, in June of 1983, established and published internal control standards which will be incorporated in Title 2 of the Policy and Procedures Manual for Guidance of Federal Agencies. The internal accounting and administrative controls of each executive agency should be established in accordance with these standards. Complying with the same Act, the Office of Management and Budget issued detailed guidelines in its Circular A-123, "Internal Control Systems" and booklet titled, "Guidelines for the Evaluation and Improvement of Internal Control Systems in the Federal Government." These documents provide

general policies and detailed instructions for evaluating and reporting on the adequacy of the agency internal control systems.

The Act requires each department or agency head to express an opinion on the adequacy of his/her organization's system of internal controls in an annual report to the President and the Congress. To comply with this requirement, each agency should conduct continuous evaluations of its internal control systems. Such evaluations will form the basis of the annual report. OMB Circular A-123 states that the head of each agency is responsible for designing, installing, evaluating, improving and reporting on the agency's internal control systems. He/she is specifically required to:

- Designate a senior official who will be responsible for coordinating the overall agency-wide efforts of evaluating, improving and reporting on internal control systems;
- Issue internal control directives to establish specific responsibilities for seeing that agency internal control systems are developed, maintained, evaluated, improved and reported;
- Provide for coordination among principal participants, i.e., the designated internal control official, heads of organizational units, and program and technical staff, including the Inspector General;
- Assign responsibility for internal control to appropriate levels of management in each agency component;
- Reform at least once every two years vulnerability assessments providing a preliminary review of the susceptibility of a program or function to waste, loss, unauthorized use or misappropriation of all agency components and assessable units;
- Provide for internal control reviews which are designed to provide a detailed examination of a system of internal controls to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner; and
- Establish a formal follow-up system to record and track recommendations as to their resolution and implementation of corrective actions.

The Inspector General, or the senior audit official if there is no Inspector General, should provide technical assistance in the agency effort to evaluate and improve internal controls. The Inspector General is also responsible for the review of internal control systems as part of its normal audit process.

The General Accounting Office will also audit the agencies' efforts to comply with the Federal Managers' Financial Integrity Act of 1982. During the first year of the implementation of the Act, GAO reviewed the processes used by the agencies in complying with the Act. In subsequent years, GAO will concentrate on reviewing agency actions to address internal control weaknesses.

Clearly, the Financial Integrity Act places responsibility for internal control systems on agency management. Top management officials should implement the intent of the Act through careful planning, close supervision and continuing support. Managers at all levels should take an active role in assuring that adequate internal controls are in place.

What constitutes an effective control system may vary with circumstances. Top Government managers are responsible for adequate internal controls in their agencies. They should establish an environment that creates the appropriate control awareness, attitude and discipline. Each control system should be designed to fit the organization and its operating philosophy to focus on areas of inherent risk and to achieve a thoughtful balance between control costs and benefits. Internal control systems should provide reasonable, but not absolute, assurance that the objectives of the system will be accomplished. This concept recognizes that the cost of internal control should not exceed the benefits derived from it.

The following questions should inform the manager as to the policies and procedures for reviewing and evaluating internal control systems in an agency.

1. Who is the senior official responsible for coordinating internal control efforts in our agency?
2. Do we have an overall agency directive and plan for internal control that creates the appropriate control awareness, attitude and discipline and that establishes internal control policies and procedures? How is actual performance monitored? How is coordination among the senior internal control official, heads of organizational units, and program and technical staff achieved?
3. How have we sought the technical assistance of the Inspector General or the senior audit official of the agency?
4. How do we assure ourselves that managers at all levels are aware of their responsibility for implementing and employing adequate internal controls?
5. How and when were vulnerability assessments made in accordance with the Financial Integrity Act and OMB Circular A-123? What was the result of the assessments? Were new programs assessed?

6. Do we systematically review and evaluate our internal controls on a regular basis, especially in the "high risk" areas? How frequently is a review performed? What are the weaknesses? How are recommendations implemented?
7. Do we have adequate resources to perform the required function to review internal controls?
8. What procedures do we follow to assure the reporting of all weaknesses in the systems of internal control to the President and to the Congress? What are the problem areas in internal control that require high level attention or decision? How do we follow up to assure corrective actions?

Suggested References:

Audit Guide for Reliability Assessment of Controls in Computerized Systems, General Accounting Office, 1978.

"Controls and Risk Evaluation (CARE) - Based Audit Methodology to Review and Evaluate Agency Accounting and Financial Management Systems" (Exposure Draft), General Accounting Office, 1984.

Executive Reporting on Internal Controls in Government, General Accounting Office, 1980.

Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, Office of Management and Budget, December, 1982.

Internal Control -- A Diagnostic Checklist, Office of Personnel Management, 1980.

Internal Control Systems, Circular A-123, Office of Management and Budget, August 1983.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office, 1984.

Questions and Answers on Circular A-123, Internal Control Systems, Office of Management and Budget, August 1984.

Security of Federal Automated Information Systems, Circular A-71, Office of Management and Budget, July 1978.

CHAPTER VIII

CASH MANAGEMENT/DEBT COLLECTION

During the past several years, increased attention has been focused on the subject of cash management. Higher interest rates, larger budget deficits and changing economic conditions have contributed to the increasing cost of money. Simply put, cash management is the acceleration of receipts (the expeditious billing, collecting and depositing of receipts), the timely disbursement of payments (the scheduling of payments on due dates, not early or late), and the investment of any temporary excess cash balances.

An integral part of cash management which deserves special attention by federal managers at all levels is the collection of debt or credit management. Debt collection involves the proper accounting for receivables and prompt aggressive collection action.

The Government-wide policy for cash management is stated in Treasury Department Circular 1084. The Circular requires that agencies conduct financial activities in a manner that will maximize the amount of cash available to Treasury and preclude unnecessary borrowing. The implementing instructions for the Circular are contained in Chapter 8000 of Part 6, Volume I of the Treasury Financial Manual. The policies and procedures governing credit management are codified in the Federal Claims Collection Standards (4 CFR 101-105) and described in the Office of Management and Budget Bulletin No. 83-11 "Debt Collection." Agencies are required to maintain cash management and debt collection action plans for implementing new initiatives which are monitored by the Office of Management and Budget (OMB) and the Department of Treasury.

There are three important pieces of legislation to strengthen the control of Federal funds:

- Prompt Payment Act of 1982 that requires Federal agencies to pay their bills on time, to pay interest penalties when payments are late, and to take discounts only when payments are made within the discount period. The implementing instructions for the Act are contained in the OMB Circular No. A-125.
- Debt Collection Act of 1982 that authorizes Federal agencies to refer information on delinquent debts to consumer reporting agencies; use salary offset, where applicable, for recovering delinquent debts; assess interest, penalties and administrative costs on delinquent debts; and use private contractors to service and collect Government debts.

- Deficit Reduction Act of 1984 (effective January 1, 1985) that authorizes the Department of the Treasury to prescribe the mechanism to be used by Federal agencies to collect receipts and the time frames for deposit of the funds.

The Department of the Treasury has enhanced cash management through the development of sophisticated funds transfer systems that are available for agencies to use in collecting or disbursing funds. The systems include:

- Treasury Financial Communications System which provides for the transfer of funds through an electronic medium between the Department of the Treasury and the banking community. Since funds are wire transferred, checks and the accompanying collection time are completely eliminated, and funds are available on the actual payment date.
- Lockbox which is an arrangement where receipts are mailed directly from payers to a post office box that is serviced by a designated bank. The bank will process the checks the day of receipt and wire transfer the amount into the agency's account.
- Automated Clearing House System under which an individual or organization authorizes the Government to automatically deposit or withdraw funds from a personal or corporate bank account. Funds are transferred by a magnetic tape through commercial depositories, Federal Reserve Banks and the Department of the Treasury.
- Cash Concentration System which links a network of commercial depositories when an agency makes deposits to a central concentrator bank through the automated clearing house system. This system services the Treasury General Account. Under this system, the funds are transferred into the Department of the Treasury through a wire transfer.

Federal agencies should explore the use of the most efficient mechanism, including those above, to collect or disburse funds.

The following questions are presented to assist in the upgrade of agency cash and credit management practices.

General Cash Management

1. Does our agency have an overall policy and procedures on cash management which is in full compliance with Treasury and OMB guidelines? What action has been taken to ensure that our regulations include the provisions of the Prompt Payment Act and Debt Collection Act?
2. What external factors (e.g., legislation, program definition, traditions, etc.) constrain good cash management? What action should be taken to alleviate them?

3. How do we assure ourselves that managers at all levels are aware of their responsibilities for implementing good cash management practices? Are cash management elements included in agency managers' performance appraisals? Do performance incentives exist?
4. Do Inspector General audits include test of compliance with cash management regulations? Are there any recent audit or review reports that disclose weaknesses in the cash management area? What are we doing about these weaknesses? What are our plans and timeframes for correcting them?
5. How effective and accurate have our cash flow forecasts been in the past? How often are forecasts developed? What can we do to improve cash forecasting?

Receivables, Past Due Accounts and Collections

1. What is the total amount of accounts and loans receivable for the agency? What is the status of our agency's receivables in terms of delinquencies, age of delinquencies, write-offs and expected future losses?
2. Are receivables in detailed accounts receivable subsidiary records regularly reconciled to the agencies general ledger? Do billings require that payment be received no later than the due date? Are interest, penalties, and administrative charges assessed on late payments as required by 31 U.S.C. 3717?
3. How do we assure ourselves that optimal collection mechanisms (Treasury Financial Communications System, Automated Clearing House System, lockbox and cash concentration) have been implemented to collect and deposit agency receipts?
4. Are salary offset procedures used to collect delinquent debt from current employees? Are administrative appeals regulations published and approved by the Office of Personnel Management?
5. Do we take aggressive action, on a timely basis, with effective followup, to collect all delinquent receivables?
6. Is information on a delinquent or defaulted debtor's credit rating transmitted to credit bureaus? Are private sector collection agencies used to collect long outstanding debts? What are the agency's procedures to assign debts for collection to such agencies?
7. Are delinquent debts which meet the criteria promptly referred to the General Accounting Office or the

Department of Justice for further collection action?
What procedures exist for debt referral?

8. What is our policy for writing off bad debts? Is it consistent with the central agencies' promulgations? If not, what are we doing to correct this problem?

Payables and Disbursements

1. What is the total amount of our agency's accounts payable? Are there any long-outstanding items? Is so, what is the reason?
2. What controls do we have to pay amounts owed on due dates --not early or late? What is our record in terms of late or early payments? Are the causes for late or early payments documented and reviewed? What actions have been taken to improve the payment cycle to eliminate late or early payments?
3. Are penalties on late payments calculated in accordance with OMB Circular A-125, "Prompt Payment"?
4. What is our agency's policy in taking discounts offered? What procedure is followed or analysis performed in deciding whether to take a discount? Is this consistent with the cost effective formula prescribed in I TFM 6-8000?
5. Do we have a system to identify discounts lost? If so, what was the amount of discounts lost in the last six months? Why were they lost and what is being done to prevent this in the future?
6. Have we been monitoring grantees' use of Federal assistance funds to make sure that they are not withdrawing funds earlier than necessary? If not, what are our plans for scheduling reviews or audits in this area? When it is found that grantees tend to withdraw funds prematurely, what action will we take?
7. What efforts have been taken to ensure that we are utilizing letters of credit to the fullest extent for the Federal assistance programs that qualify for this method of financing? Is Letter of Credit - Treasury Financial Communications System (LOC/TFCS) used for grant funding? If not, what are the plans for doing this?
8. What procedures do we have to convert from letter-of-credit "advance" payment procedures to reimbursement procedures when a recipient of Federal assistance habitually abuses the letter-of-credit procedures?

Cash Balances Held Outside Treasury

1. Does our agency hold any cash balances outside Treasury accounts? Where and in what form are these balances held?
2. What procedures does our agency have to assure that imprest funds levels are commensurate with actual needs and do not exceed the maximum limitations?
3. Are balances in excess of immediate disbursing needs promptly refunded to Treasury? How are disbursement patterns tracked and evaluated?
4. Is interest on fund balances (where authorized by Treasury) at the highest possible rate? How are investments determined?

Suggested References:

Debt Collection, Bulletin No. 83-11, Office of Management and Budget, March 1, 1983.

Federal Claims Collection Standards, Code of Federal Regulations, Title 4, Chapter II, General Accounting Office.

Implementation of Debt Collection Act of 1982 - Use of Credit Reporting Agencies, Bulletin No. 83-12, Office of Management and Budget, September 21, 1983.

Money Management Study, Joint Financial Management Improvement Program, May 1976.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 4, General Accounting Office.

Proceedings of Workshop on Debt Collection, Joint Financial Management Improvement Program, April 1980.

Prompt Payment, Circular No. A-125, Office of Management and Budget, August 1982.

Report on Strengthening Federal Cash Management, Office of Management and Budget, August 1980.

Report on Strengthening Federal Credit Management, Office of Management and Budget, January 1981.

Treasury Financial Manual, Volume I, Part 6, Chapters 2000 and 8000, Department of the Treasury.

CHAPTER IX

ASSURING PROPER PAYMENTS

Usually, payments for the Government are made by Treasury disbursing officers based on vouchers certified as to their legality, accuracy and propriety by designated certifying officers in the agencies. The Certifying Officers Act (PL-389, December 29, 1941) defined the roles of disbursing and certifying officers. The Act provided that disbursing officers disburse on the basis of vouchers certified by only authorized certifying officers. The Act makes certifying officers accountable and liable for any illegal, improper or incorrect payments resulting from any false, inaccurate or misleading certifications made by them.

Federal agencies can, under certain circumstances, administratively resolve certifying officers of improper payments of less than \$750. If the amount is over \$750, the agencies must request relief from liability for certifying officers from the Comptroller General of the United States.

In the military departments and in other special situations, disbursing officers perform both certification and disbursement functions. Military disbursing officers are held accountable and primarily liable for the legality, propriety and correctness of all payments.

The Government has grown enormously and the use of computers has significantly altered payment methods. In the past, payments were processed manually. Large groups of clerks prepared vouchers, verified their accuracy and compared related data with those on supporting source documents such as purchase orders, receiving reports and vendors' billing documents. Certifying officers certified vouchers on the basis of reviews made by examiners under their supervision. Today, much of the preparation and processing of vouchers is automated, and inputs are made by persons of other organizational elements. Computers, still under another organization, generate thousands of payments, for millions of dollars, which are encoded in some instances on magnetic tapes. These tapes are used to prepare checks.

In the future, payment processing will become more mechanized as additional manual processes are automated and as computer technology improves. In fact, the Department of the Treasury is developing a method to approve payment vouchers through electronic certification. The method will allow certifying officers to certify payment vouchers without manually signing the individual vouchers.

In today's automated environment, most decisions and actions which make the Government liable for payments are made at offices scattered nationwide. However, the payments are processed and certified at central locations. For example, purchase orders are entered into a central computer by remote terminals at field

offices. Later receiving reports and vendors' bills are entered into the computer by the same means, but at other locations. The central computer verifies and matches these transactions and prepares the payment vouchers. The legality, propriety and correctness of transactions affecting payments are actually determined by individuals at the field offices and/or by a computer. However, on the basis of computer-generated output, certifying officers must certify these payments.

Certifying officers can no longer directly attest to the legality and accuracy of payments. In view of the large volume of transactions, many locations initiating transactions, transaction entry by remote terminals, data transfer through telecommunications networks and central computer processing, the certifying officers must rely on many other individuals and on the payment systems. Certifying and disbursing officers must have evidence that the systems are designed and operated properly to assure that payments are legal, accurate and proper. In compliance with the Financial Integrity Act (See Chapter VII, Internal Control), controls should be built into the "total" payments system -- "cradle to grave" -- to assure proper, legal and correct payments.

Well-designed automated payments systems accordingly should have procedures that will insure that:

- Documents are properly authorized, approved, and examined before they are input into the payment system;
- Inputs are complete and accurate;
- Outputs are in accordance with systems specifications and are processed consistently with current legal and policy requirements;
- Outputs from the payment system are used as direct input in updating the general ledger system;
- Additions, deletions, or changes to data or computer programs are properly authorized and controlled;
- Equipment functions properly and operates according to established procedure and regulations;
- Physical access to documents and equipment is adequately controlled; and
- Source data received from outside the processing departments and agencies or from other computer systems are processed according to the above criteria.

Agency top management plays an important role in creating an environment and process to assure that certifying officers and other managers in the payment process are fulfilling responsibilities so that only legal, proper and correct payments are made.

Every manager in the payment process has the responsibility for assuring proper control over the portion of the system for which he/she is responsible.

The following questions may be useful in establishing such an environment and process:

1. Does our agency have an overall plan and procedures that provide assurance to certifying officers that the overall payment system (a) is properly designed, implemented and modified, (b) is operating properly, and (c) can be relied on to process legal, proper and correct payments? How is this plan monitored? Do the vulnerability assessments and internal control reviews required by OMB Circular No. A-123 provide adequate evaluations of payment systems that cross many organizational lines?
2. Do the various key officials in the payment process understand that they must operate their responsible portions of the payment system to produce legal, proper and correct payments? What type of a confirmation process has been implemented to assure that these portions are operating satisfactorily?
3. What "quick resolution" process is followed when there is an indication that certain portions of the payment process are not functioning properly?
4. What is our agency's disciplinary and sanction policy regarding individuals who are found to be responsible for causing illegal, improper and incorrect payments?
5. How frequently in the last two years have we experienced incorrect, improper and illegal payments over \$750? Under \$750? What were the root causes for these erroneous payments, and what has been done to prevent them in the future?
6. Are periodic and independent reviews or audits performed on the payment systems? Are they adequate? What follow-up is performed, and is such action timely to ensure that recommendations are implemented, as appropriate?

Suggested References:

Now That You're a Certifying Officer, Department of the Treasury, September 1983.

Policy and Procedures Manual for Guidance of Federal Agencies, Titles 3 and 7, General Accounting Office.

Principles of Federal Appropriations Law, Chapter 10, General Accounting Office.

Treasury Financial Manual, Volume I, Part 4, Department of the
Treasury.

CHAPTER X

PRODUCTIVITY AND PERFORMANCE MEASUREMENT

Productivity is broadly defined as the measure of individual or organizational performance. It means improving efficiency, upgrading the usefulness and effectiveness of governmental services or products, increasing the responsiveness of services to the public, lowering the cost of services, and decreasing the time required to provide the services.

The Office of Management and Budget has initiated a program to improve the management and administration in the Federal Government, and to implement new management processes and systems for more efficient and effective operations. The objectives, which are targeted toward productivity improvements, are as follows:

- Improve internal agency operations by consolidating functions and applying productivity standards to administrative operations;
- Contract out commercial activities whenever it is cost-effective to do so (see also Chapter XI);
- Develop Government-wide management processes in accounting, payroll, personnel and automatic data processing; and
- Streamline delivery systems such as the Federal field structure.

OMB would like agencies to concentrate on the consolidation of administrative support systems within departments or agencies, the use of cross servicing arrangements among departments and agencies, and the development of common, generic systems. Another area that OMB would like to focus on is the consolidation of staffing and resource levels for common administrative functions, thus eliminating small administrative centers and reducing costs. Federal agencies would also be required to institute a performance-base management system and establish performance standards for commercial-type activities of the Government.

Top executives and managers must constantly encourage productivity improvements within their organizations. In order to initiate and maintain a good productivity program, they must:

- Identify and define the goals and objectives of the mission(s), services and products being provided and the expected results.
- Collect and analyze information on how efficiently and effectively these results are being achieved.

- Introduce and adopt innovative, technological and procedural changes to improve the productivity of the operations.
- Reevaluate productivity measurement systems periodically and make the necessary changes.
- Monitor productivity improvements.
- Hold subordinates, line managers and individuals accountable for implementing productivity improvements.
- Provide incentives to employees to improve productivity.

The Bureau of Labor Statistics maintains the overall Federal Productivity Measurement System, which collects and analyzes productivity data for the Federal sector. The data are submitted by about 400 organizational units within 47 agencies of the Federal Government, which covered approximately 60 percent of the civilian force in the Executive branch. Organizational and agency indices are developed and returned by the Bureau to participants for their use. Productivity and related measures are prepared for 28 functional categories such as financial management, personnel management, supply, and inventory control. Summary results are available to all agencies for their comparison with similar activities in other parts of the Federal Government.

With tighter budget constraints and increasing workload, it is now more imperative to get the most efficient performance from staff resources. Some of the following questions may be useful in determining whether or not a productivity program has been successfully implemented in accounting and finance operations.

1. Does our agency's accounting system provide adequate cost and performance information to line and operating officials for evaluating efficiency and productivity improvements? If not, do we have a plan to improve our accounting system to provide this service? If yes, do we continue to review it for further improvement?
2. Is there a productivity improvement program within our accounting and finance operations? If not, are there plans for initiating a program? How are we exploring the use of microcomputers to process work faster and more cheaply?
3. Is enough time and effort devoted to reviewing operational performances? To reviewing other productivity issues?
4. Are productivity improvement responsibilities clearly identified for each level of management? Are our managers held accountable for productivity improvements?

5. How are various productivity efforts coordinated? Do we exchange information with different agencies and others to find out what they have done in this area?
6. Are there adequate staff resources to support productivity improvements?
7. Do we have training programs to teach our managers and employees productivity improvement skills and attitudes? Are incentives (e.g., monetary awards and certificates) used to stimulate productivity improvement?
8. Do we measure productivity in our accounting and finance operations? If so, is performance as well as quality measured?
9. Have we reviewed administrative functions and regional office activities recently to find out if they can be consolidated? If not, what are our plans to do these reviews?
10. Have we undertaken studies to find out whether it would be less costly to have various functions, such as administrative payments and payroll, performed by other agencies? If not, what are our plans to do this?

Suggested References:

Evaluating a Performance Measurement System - A Guide for the Congress and Federal Agencies, General Accounting Office, FGMSD 80-57, May 12, 1980.

Implementing a Productivity Program: Points to Consider, Joint Financial Management Improvement Program, March 1977.

Improving the Productivity of Federal Payment Centers Could Save Millions, General Accounting Office, FGMSD 80-13, February 12, 1980.

Increased Productivity in Processing Travel Claims Can Cut Administrative Costs Significantly, General Accounting Office, AFMD 81-18, January 19, 1981.

Increased Use of Productivity Management Can Help Control Government Costs, General Accounting Office, AFMD 84-11, November 10, 1983.

Measuring Productivity in Accounting and Finance Offices, Joint Financial Management Improvement Program, September, 1981.

Ways to Improve Federal Management and Use of Productivity Based Reward Systems, General Accounting Office, FPCD 81-24, December 31, 1980.

CHAPTER XI

SPECIAL COST STUDIES

Circular No. A-76 "Performance of Commercial Activities," issued by the Office of Management and Budget, establishes policies and procedures to determine whether needed commercial or industrial type work should be performed by contract with private sources or "in-house" using Government facilities and personnel. The Circular was based on three policy precepts:

1. Where available, commercial or industrial products and services needed by the Government should be obtained from commercial sources if they can be procured more economically.
2. Certain functions are inherently governmental in nature, being so intimately related to the public interest as to mandate performance by Government employees.
3. When private performance is permissible with no overriding factors, a comparison of the cost of contracting and cost of in-house performance should be performed to determine who will do the work.

In accordance with the Circular, each agency must:

- Designate an official at the assistant secretary or equivalent level and officials at a comparable level in major component organizations to have responsibility for implementing the provisions of the Circular and its supplement and establish one or more offices as central points of contact to carry out the implementation.
- Evaluate all agency activities and functions to determine which are governmental functions and which are commercial activities.
- Complete an annual inventory of all commercial activities, including known expansions and new requirements with pertinent information; the inventories should be made available to other agencies and the public upon request.
- Schedule for review the commercial activities listed in the inventories; the review schedules should be published in the Commerce Business Daily and the Federal Register at least once a year.
- Conduct the cost comparison reviews in accordance with the schedules and the supplement to the OMB Circular A-76.
- Convert to the more economical method, when the reviews indicate that a change in mode of performance would result

in sufficient savings considering all costs including transition costs.

--Submit a report on the implementation of OMB Circular A-76 before March 15 each year.

Government performance of a commercial activity is authorized under any of the following conditions:

--There is no satisfactory commercial source available.

--The activity is vital to national defense.

--In-house performance in Government hospitals is determined to be in the best interest of direct patient care.

--A cost study shows that in-house performance is less costly than a qualified commercial source.

Commercial activities involving 10 or fewer full-time equivalent work years (a full-time-equivalent work year is 2,087 hours of paid straight time in a fiscal year) may be converted to contract without cost comparisons. Activities exceeding 10 full-time-equivalent work years must undergo cost comparisons to determine whether in-house performance should be continued or performance should be converted to a contract. Cost comparisons may be waived by the designated assistant secretary responsible for the implementation of the Circular and the activity converted to contract.

Existing commercial activities approved for continuation in-house performance must be completely reviewed at least once every five years. Also, contracted commercial activities should be continuously monitored. When contract costs become unreasonable or performance unsatisfactory, a cost comparison should be made. The Circular and its supplementing handbook provide specific and detailed guidance for performing comparative cost analyses. This Circular should not be used to contract out work solely to stay within an agency personnel ceiling. The Office of Management and Budget, in recent years, has shown keen interest in Circular A-76 implementation by agencies and has included a discussion of this subject during agency budget hearings.

Past experiences have shown that comparative cost analyses resulted in substantial cost savings and productivity increases. First, in some instances, the reexamination of Government requirements resulted in the identification and elimination of unnecessary functions and features. Second, the search for the most efficient way to perform an activity within Government under the threat of competition has led to reduction in staffing in some cases. Finally, comparing Government costs with competitive contract costs, obtaining when appropriate, a bid for the service from another Government agency and choosing the less costly alternative between the three options have led to further cost savings.

The following questions should enable top managers to quickly determine the degree of implementation of the OMB Circular A-76 policies and procedures:

1. Have we established internal procedures and instructions implementing OMB Circular A-76 and its supplement? If answer "no," what is the status?
2. Have we identified all activities in this agency providing a product or service that can be obtained from private sources? Have we identified all current contracts awarded by this agency for products and services that could be produced in-house?
3. If answers to 2 are "yes," have we prepared and published a schedule to review those activities and contracts to determine whether contractual or in-house performance is more economical?
4. Are we performing the review as scheduled? If not, why not and what are we doing to get back on schedule?
5. In performing the cost comparison analyses, how do we assure ourselves that the OMB guidelines are followed and used?
6. Where appropriate and applicable, does our accounting system provide necessary and timely information for the cost comparison reviews? What changes, if any, are needed to accommodate such needs?
7. In performing cost comparison studies, do we review procedures specifically and systematically to detect unnecessary and overlapping activities, as well as to seek more efficient and productive ways of performance? If not, why not and what are we doing to enhance productivity?
8. What controls do we exercise to assure that contracts are not awarded solely to stay within our agency personnel ceiling?
9. Do we have orderly and systematic procedures to change the mode of performance in a timely manner when a change is dictated by the cost comparison reviews? If not, when will they be available?

Suggested Reference:

Performance of Commercial Activities, Circular No. A-76 (Revised), Office of Management and Budget, August 1983.

Supplement to OMB Circular No. A-76, Office of Management and Budget, August 1983.

CHAPTER XII

PROPERTY AND INVENTORY

Billions of dollars in public funds are invested in Government property. Managers are responsible for assuring that property held by Federal agencies is procured, used and managed properly, efficiently and effectively. Managers are also responsible for designing and operating financial management systems that provide accurate, reliable financial and quantitative information on property resources for use by internal management and for preparing financial reports for the Congress and others.

The Congress has enacted several laws specifically addressing the accounting for property. They include:

1. National Security Act of 1947, as amended, requires the Secretary of Defense to have property records maintained in the military departments on both a quantitative and monetary basis, so far as practicable (10 U.S.C. 2701).
2. Federal Property and Administrative Services Act of 1949, Section 202(b), requires each Executive agency to maintain adequate inventory controls and accountability systems for the property under its control (40 U.S.C. 483).
3. Public Law 84-863, passed in 1956, Section 2, imposes the requirement that the accounting system of each agency include monetary property accounting records (31 U.S.C. 3512(d)).
4. Public Law 94-519, enacted in 1976, Section 1, requires each Government agency to establish a property accountability system.

The Accounting and Auditing Act of 1950 requires agency heads to establish and maintain adequate systems of accounting and internal control. The Federal Managers' Financial Integrity Act calls for agency internal accounting and administrative controls to provide reasonable assurance that property and other assets are safeguarded against waste, loss or unauthorized use. The standards for accounting for property, plant and equipment, and inventory are codified in Title 2 of the General Accounting Office's Manual for Guidance of Federal Agencies.

Managers are responsible for establishing systems and procedures for efficient and effective utilization of an agency's property. They should provide assurance that property is used only for official purposes, adequate inventory controls and accountable records are maintained, effective controls are employed over the custody of property, adequate maintenance and proper care are provided, and property records are periodically reconciled to the accounting records.

Agency managers are also responsible for maintaining a reliable accounting system in which records are systematically maintained for property. Such records should provide for the recording of all transactions as appropriate which affects property such as acquisition, use, depreciation, disposal, and loss of property.

Adequate records and procedures must be maintained to have proper control over property. A general ledger account with the total amounts for property and inventory should be supported by detailed property records. Individual property records should be maintained showing the description, quantity, location, and acquisition costs of each item. The individual property records (property subledgers) should be reconciled to the general ledger periodically. The records should be usable for calculating depreciation and replacement values, when appropriate.

Periodically, physical inventories should be taken to verify the accuracy of the individual property records. The inventory count should be used as an internal control check on property within the agency. If differences exist between the quantities determined by physical inspection and those shown in the accounting records, an investigation should be initiated to determine the cause of the difference and to identify the improvements needed to prevent any fraud, waste or abuse. Accounting records should be adjusted to agree with the results of the physical inventory.

Questions that you should ask about the property account in your agency include the following:

1. Do we have adequate overall control of property in the general ledger accounts? If not, what are our plans to do so? If so, are the accounts classified adequately to show the different types of property we have (land, building, equipment, supplies, etc.)?
2. Do we have procedures to charge the use, application or consumption of property to proper operations, activities or goods produced? If not, what are we planning to do to charge for property costs?
3. In addition to the overall financial controls, do we have separate property records that show the description, quantity, location, condition, acquisition costs and other pertinent information? If not, when do we expect to have them?
4. Do we conduct physical inventories periodically to check the accuracy of the detailed property records? Do we conduct investigations when large discrepancies are disclosed? How have we corrected and monitored the system when such investigations have shown procedural or control weaknesses?

5. How frequently do we reconcile the total dollar value of the detailed property records with the amounts shown in the general ledger accounts? Have we investigated any significant differences for taking corrective actions?
6. Are the property records designed and used to assure proper procurement and maximum utilization of property? What are the procedures for periodically reviewing the property records to identify and dispose of excess property?
7. How do we assure ourselves that proper and adequate safeguards and maintenance for property have been provided?
8. What procedures do we maintain to control Government property in the hands of others (contractors and grantees)?
9. Have any audit findings recommended improvements in this area? If so, what have we done to implement these improvements?

Suggested References:

Do It Yourself -- Compare and Improve Your Property System, Joint Financial Management Improvement Program, March 1982.

Federal Property Management Regulations, General Services Administration.

Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, General Accounting Office.

Property Management Evaluation Guide for Federal Agencies, Joint Financial Management Improvement Program, March 1982.

CHAPTER XIII

FEDERAL ASSISTANCE PROGRAMS

There are about 500 Federal financial assistance programs providing over \$90 billion annually to State and local governments, universities and other nonprofit institutions. Federal assistance to State and local governments consists of about 22 percent of their combined budgets.

There has been a growing concern, both in the private and public sectors, about the effectiveness of Federal assistance programs and the increase in fraud, abuse and mismanagement in these programs. Both the Legislative and Executive Branches continue to strongly emphasize the need for efficient and effective programs free of fraud, waste and abuse. Recognizing the need to control these programs, the Federal Government has established specific requirements affecting the use of the funds.

The Congress passes legislation to create each Federal assistance program -- some legislation includes specific requirements for recipients while other legislation provides more general requirements. The agencies administering these programs incorporate these and other requirements in their own regulations which apply to their internal operations and to recipients' operation.

The rapid growth in the size, diversity of Federal assistance programs and the multitude of complex and varying regulations in the 1960's and 1970's brought increasing demands for simplification and standardization of the financial and other administrative requirements imposed by Federal agencies on the recipients. In the 1970's, to solve this problem the Office of Management and Budget, in consultation with other Executive agencies, the General Accounting Office, and representatives of recipients, developed a series of financial circulars that establish uniform policies and rules to be observed by all Federal agencies. These circulars cover standard administrative requirements, uniform financial reports, application forms, cost principles, and audit approaches.

A major goal of the Federal Government in the early 1980's was to reduce its involvement in activities that are more properly administered by State and local governments. During this period, many narrow categorical grant programs were consolidated into more flexible block grants. The new block grants gave State and local governments considerably more discretion over the use of Federal aid and provided much simpler administrative requirements than their predecessor programs.

Standardization, simplification and consolidation of Federal assistance programs provide more flexibility to the recipients of grants and enables them to focus more attention on the effective

administration of programs instead of diverting their attention to complying with a different set of Federal rules and requirements for each individual grant. Further, grant recipients are able to fold new programs into their ongoing operations without major impact. Maximum use is made of existing records and reports, eliminating the need for costly duplicative systems.

In recent years, the single audit concept has been gradually implemented as the way to audit and evaluate the financial operations and compliance of major requirements of the Federal assistance programs by the recipients (See Chapter XV, Auditing). Also, certain Federal agencies are designated as cognizant agencies to review and approve indirect cost plans and negotiate indirect cost rates for grantees. In the absence of legislative restrictions, these rates are used in grant awards and "reimbursements."

To insure that Federal assistance programs are administered and monitored properly, the following questions may be useful to top managers.

1. Do we have well-developed and comprehensive Federal assistance policy regulations and manuals for agency officials and recipients? How do we assure ourselves that they provide clear guidance to Federal and non-Federal participants, when appropriate, as to:
 - Eligibility requirements, specific program requirements and statutory requirements?
 - Standard administrative requirements promulgated by the Office of Management and Budget and other agencies?
 - Use of standard forms?
 - Allowable and unallowable costs and indirect cost computations? The process to review and negotiate indirect cost rates of the recipients?
 - Recipient's responsibility for sound financial management systems?
 - Appropriate timing of cash drawdown from the Federal Government?
 - Requirement for implementation of the single audit concept?

If the above items are not covered, what is the status and the target date for their issuance?

2. For project oriented grants, do our application review procedures provide adequate and timely review? How do we

assure recipients' eligibility? Do we provide preaward surveys when appropriate? How do we assure objective selection of recipients?

3. How do we monitor and analyze post award performance by the recipients? What kinds of action can we take or have we taken when we find substandard performance?
4. What kinds of information and reports are available to our program managers from the financial management system? Have we checked with our program managers recently to see if the information is adequate or if improvements can be made?
5. How do we determine that the recipients are maintaining proper accountability over property acquired with Federal assistance?
6. Do we have provisional or negotiated indirect cost rates for all of our major recipients? Which Federal agency is the cognizant agency responsible for review, approval, and negotiation of indirect cost rates? Do we have any problems or disagreements with the established rates? If so, what can I do to assist?
7. How do we control the payments to recipients to insure that they are correct, proper, and legal and to prevent early and excess advances? How do we prevent the recipients from making early and excess advances to subrecipients?
8. Do we have prompt and adequate closeout procedures for completed grants to assure proper performance and expenditure of funds? Do our procedures enable timely recovery of excess Government funds or property? How is this monitored?
9. Do we provide for systematic review and action on recommendations contained in audit or other review reports? What management process exists to track costs questioned by auditors and to assure timely and satisfactory resolutions?
10. What is the frequency of audits performed on grants? Are there any areas in which we need the assistance of auditors, inspectors or investigators to follow up on alleged weaknesses, fraud, abuse or mismanagement? If so, how can these efforts be coordinated?

Suggested References:

Audit of Federal Operations and Programs, Circular A-73 (Revised), Office of Management and Budget, June 1983.

Catalog of Federal Domestic Assistance, Office of Management and Budget, June 1984 (Published annually; future editions to be published by the General Services Administration).

Cost Principles for Educational Institutions, Circular No. A-21, Office of Management and Budget, July 1982.

Cost Principles for State and Local Governments, Circular No. A-87 (Revised), Office of Management and Budget, January 1981.

Intergovernmental Review of Federal Programs, Executive Order 12372, Office of the President, July 14, 1982.

Guidelines for Financial and Compliance Audits of Federally Assisted Programs, General Accounting Office, February 1980.

Indirect Cost Rates, Audit and Audit Followup at Educational Institutions, Circular No. A-88 (Revised), Office of Management and Budget, November 1979.

Standards for Audit of Governmental Organizations, Programs, Activities and Functions, General Accounting Office, 1981.

Treasury Financial Manual, Volume I, Part 6, Chapters 2000 and 8000, Department of the Treasury.

Uniform Requirements for Grants to State and Local Governments, Circular No. A-102, Office of Management and Budget, 1981.

Uniform Requirements for Grants to Universities, Hospitals and Other Nonprofit Institutions, Circular No. A-110, Office of Management and Budget, 1976.

CHAPTER XIV

PROCUREMENT

As a part of the performance of their respective missions and programs, agencies procure goods and services from the private sector. Approximately \$150 billion is spent annually for obtaining goods and services. With such a significant percentage of Federal funds spent on procurements, managers at all levels should be responsible for assuring that only necessary goods and services are procured properly at the least cost.

The Office of Federal Procurement Policy located in the Office of Management and Budget is responsible for establishing a system of uniform and coordinated procurement policies. Under its leadership, two councils -- the Defense Acquisition Regulatory System Council and the Civil Agency Acquisition Council -- prepared the Federal Acquisition Regulation to replace a number of procurement regulations that existed.

The Federal Acquisition Regulation applies to all Federal departments and agencies and contains the common acquisition policies, procedure contract clauses and forms of the Federal Government to be used when procuring goods and services. It is organized into subchapters covering acquisition planning, contracting methods and contract types, socioeconomic programs, general contracting requirements, special categories of contracting, contract management, solicitation provisions and contract clauses. The Federal Acquisition Regulation is codified in Chapter 1, Title 48 of the Code of Federal Regulations. All agency implementing and supplementing regulations are published in assigned chapters of Title 48. The Federal Acquisition Regulation is maintained by the Defense Acquisition Regulatory System Council and the Civil Agency Acquisition Council. The two councils are supported administratively by a Federal Acquisition Regulation Secretariat at the General Services Administration.

Basically, Government policy states that most purchases and contracts are to be made on a competitive basis, either by formal advertising or by negotiation. Formal advertising is used whenever it is feasible and practical; otherwise, negotiation may be used.

There are four distinct stages to the procurement cycle. They include:

1. Justification of the procurement--Agencies should plan for procurement in advance and determine the need for goods and services. All efforts should be made to avoid unnecessary and duplicate purchases. An analysis of the potential use should be made to help managers determine the appropriateness of the procurement before the procurement is approved.

2. Selection of the contractor or vendor--This is part of the cycle in which agencies must openly and fairly solicit bids, evaluate them and make the final award in an impartial manner to the responsible and responsive bidder with the lowest bid.
3. Contract administration--Contractors and their performance should be continuously monitored to determine whether work is being performed in an efficient and effective manner and consistent with the contractual provisions. If a contractor is not satisfactorily fulfilling its commitments, the agency should initiate the appropriate actions, which may include termination of the contract.
4. Post review--Audits and reviews should be conducted, when appropriate, to assure that costs incurred by the contractors are valid and to assure that the contractors performed fully in accordance with contractual agreements. Where discrepancies or shortcomings are disclosed, procedures should be established and followed to take proper action against the contractor.

Some of the following questions may be useful in determining whether or not your agency's procurement system and procedures are adequate.

1. What procedures do we follow to assure that duplicative or unnecessary services or products are not purchased?
2. How do we determine in advance that potential contractors:
 - Have the necessary financial and technical capabilities?
 - Have the necessary facilities to perform?
 - Have performed satisfactorily in the past?
 - Are otherwise qualified?
3. How do we assure ourselves that procurement procedures provide for maximum competition among potential contractors? Do they provide for fair and open selection of successful contractors?
4. How do we assure ourselves that goods and services we acquire are priced fairly and reasonably?
5. How do our contractual provisions provide sufficient protection of Government interest?

6. What type of review system of contract administration is in place to assure that the contractors are performing and delivering the specified services and goods in the specified quantity within the specified time?
7. What process is in effect that will assure early detection of potential and real cost overrun by contractors?
8. How do we assure that payments to contractors are legal, proper and accurate before they are certified and forwarded to the disbursing officers?
9. How do we assure timely and adequate closeout of contracts to determine that each party to the contract has fulfilled its commitment? Where applicable, are audits of contract costs performed properly and on time?
10. Are there any "open" audit reports that have indicated weaknesses in our procurement procedures or questioned costs incurred by the contractors? What are we doing about these?

Suggested References:

Federal Acquisition Regulation, Office of Federal Procurement Policy, Office of Management and Budget, September 1983.

Performance of Commercial Activities, Circular A-76 (Revised), Office of Management and Budget, August 1983.

CHAPTER XV

AUDITING

The audit function is an extremely important management tool and can provide a valuable service to management by not only examining the entity's financial statements but also reviewing compliance with applicable laws and regulations, economy and efficiency of operations and effectiveness in achieving program results. Adequate and qualified staff should be assigned to the audit function and audits should be conducted by personnel who collectively have the skills necessary for the type of audit to be done.

Auditing is an independent, objective and systematic review of the diverse operations and controls within an organization. Expanded scope of auditing of Government organizations, programs, activities, and functions should encompass the following elements:

1. Financial and compliance - determines (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
2. Economy and efficiency - determines (a) whether the entity is managing and utilizing its resources (such as personnel, property, and space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.
3. Program results - determines (a) whether the desired results of benefits established by the legislature or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

Audits of federal organizations' programs, activities, functions, and funds received by contractors, nonprofit organizations, and other external organizations should be made in accordance with:

- The Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," and
- The Office of Management and Budget's Circular No. A-73 (Revised) "Audit of Federal Operations and Programs."

Audit services in Government should be an integral part of the management process. Audit services and reports must be responsive to management needs. In order to obtain the maximum benefit from audit services, agency audit organizations should have a sufficient degree of independence and objectivity in carrying out their responsibilities. This independence and objectivity is provided for 19 departments and agencies by the statutes establishing Inspectors General who report to the heads of the agencies, the President and the Congress. Other agencies have designated Inspectors General reporting to the heads of the agencies based on administrative action. To help achieve maximum independence, the audit function or organization should be organizationally located outside the staff or line management function of the unit under audit and should report to the head or deputy head of the Government entity.

Some audit organizations perform audits of contracts for other departments and agencies based on interagency agreements. A small number of organizations procure the services of public accounting firms.

The President's Council on Integrity and Efficiency was established to provide a mechanism for developing coordinated Government-wide plans to prevent and detect fraud, waste, and mismanagement and to implement those plans. It is chaired by the Deputy Director of the Office of Management and Budget and comprised of the statutory Inspectors General, the Deputy Attorney General, the Director of the Office of Personnel Management, and other key audit and investigative officials. Senior audit and investigative officials of other Federal agencies are represented on the Coordinating Conference of the President's Council on Integrity and Efficiency.

For audits of Federal assistance programs, the Office of Management and Budget, in cooperation with the General Accounting Office, issued guidance that prescribes the "single audit approach." The single audit approach provides for independent audits of financial operations, including compliance with certain provisions of Federal laws and regulations, to be performed by the recipients of Federal assistance programs. The requirements are established to ensure that audits are made at least once every other year on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether (a) financial operations are conducted properly, (b) the financial statements, including reports to the Federal Government, are presented fairly, accurately and completely, (c) the organization has complied with laws and regulations affecting the expenditure of Federal funds, and (d) internal procedures have been established to meet the objectives of Federal assistance programs. Moreover, the Congress passed the Single Audit Act of 1984 (P.L. 98-502) making the single audit approach a mandatory requirement for Federal assistance programs to State and local governments.

Under the single audit approach, the Office of Management and Budget has designated specific Federal agencies as "cognizant audit organizations" to coordinate the efforts of audits on Federal assistance programs. The responsibilities of the cognizant agencies are generally described in Attachment P of OMB Circular A-102, "Uniform Administrative Requirements for Grants-in-aid to State and Local Governments" and OMB Circular A-110, "Uniform Requirements for Grants to Universities, Hospitals, and other Nonprofit Institutions." More specifics are provided in The Cognizant Audit Agency Guidelines issued by the Joint Financial Management Improvement Program.

In general, Federal cognizant audit organizations review the audits performed by the recipients. When audits are deemed adequate, other Federal agencies will be so notified. If audits are inadequate, the cognizant agencies take certain actions that would overcome the associated problems. The National Intergovernmental Audit Forum and the Regional Intergovernmental Audit Forums were established, in part, to assist in coordinating the audit of Federal assistance programs. Membership of the Forums consists of Federal, State and local audit officials.

Most audits -- internal or external -- result in issuance of some form of audit reports with recommended actions when appropriate. Management is primarily responsible for directing action and followup on audit recommendations. However, auditors should normally establish a followup system that enables them to track the status of their previous recommendations to determine whether appropriate corrective actions have been taken by management officials. Management at all levels within an agency should be accountable to ensure that corrective actions are taken to resolve audit findings. Agency heads are responsible for designating a top official to oversee audit followup and assuring agency responsiveness to audit recommendations. The procedures should provide for a means to assure timely responses to audit reports and to resolve major disagreements between the audit organizations and agency management within six months. Agency heads should be provided with semi-annual reports on the status of all unresolved audit reports over six-months old, the reasons for nonresolution, and a timetable for their resolution in addition to other related information. The policies and procedures for audit followup in executive agencies are outlined in OMB Circular A-50 (Revised), "Audit Followup."

The General Accounting Office (GAO), as the representative of the Congress, performs audits of programs, activities, financial transactions and accounts of departments and agencies. The GAO normally requests agencies to review and comment on draft reports so that final reports may incorporate agency views. By law, agencies have a maximum of 30 calendar days to provide comments on draft GAO reports unless additional time has been requested and approved. When the GAO issues final reports to the Congress or the head of an agency, agencies are required by OMB Circular A-50 to submit a statement to the Director of OMB within

60 calendar days after formal transmittal of a GAO report to the agency. The statement should identify the GAO report, describe the agency views on the reports findings and recommendations and identify action taken or planned on each significant findings. The statement is required when at least one of the following applies:

- a. The report contains a specific recommendation for the head of the agency;
- b. The report contains financial statements accompanied by either a qualified audit opinion or a disclaimer of opinion;
- c. The report indicates a violation of the Antideficiency Act which has not been reported to the appropriate authorities;
- d. The report indicates a violation of other laws; or
- e. Comments are requested by OMB.

In accordance with 31 U.S.C. 720, when a GAO report contains recommendations to the head of an agency, the agency must submit a written statement as to what action was taken or will be taken to:

- a. The Senate Committee on Governmental Affairs and the House Committee on Government Operations, no later than 60 days after the date of such report.
- b. The Committees on Appropriations of the Senate and the House of Representatives, with the agency's first request for appropriations to the Congress, for all GAO reports that were issued more than 60 days before the appropriations requests.

Two copies of the statements, required by 31 U.S.C. 720, should be submitted on the same date to the OMB and the GAO. Moreover, OMB Circular A-50 states that agency statements to Congressional committees, individual Members of Congress or the GAO will be subject to advance clearance by OMB when the statement expresses views on proposed or pending legislation or deals with other agencies or Executive Branch budget policies. Clearance action should be completed prior to transmittal of the statement in accordance with Circular A-19, "Legislative Coordination and Clearance."

The following are pertinent questions concerning auditing:

1. Has our audit staff been responsive to the needs of management? If not, what should be done?

2. How have audits covered the most critical areas where large dollar amounts are involved or where fraud, abuse, waste or mismanagement is likely?
3. How do we assure ourselves that audit reports are timely, accurate, relevant and useful? Are there sufficient opportunities for management to express its priority and needs to the audit staff without interfering with auditor's independence and objectivity? How is this accomplished?
4. Does our audit staff have sufficient resources to fulfill its responsibilities? With the present resources, is the audit staff providing adequate audit coverage of our agency's functions, programs and activities? What is the desirable cycle for audits (some functions, programs and activities may require more frequent audit than others)? What additional resources are required to accomplish this?
5. Do we have a management review team or internal review team duplicating or overlapping the efforts of the audit staff? If so, why?
6. What formal policies and procedures for prompt and proper resolution of audit recommendations exist? Do they include:
 - Designation of responsible official(s) for audit followup?
 - Tracking system for audit recommendations until final resolution?
 - Requirements for a decision within six months as to disposition of each audit recommendation?
 - Elevation to agency head for decision when auditors and operating officials cannot agree on disposition of audit recommendations within six months?
 - Preparation of semiannual reports to the agency head on status of audit recommendations?
 - Evaluation of the followup system for audit recommendations?
7. Are there any audit recommendations where auditors and operating officials disagree presently? What can I do to help resolve the disagreement?
8. Are there any problems in carrying out the resolutions agreed upon? What are they and how can I help in carrying them out?

9. For Federal assistance programs, has our agency issued or revised our audit policy and regulations to implement the "single audit approach?" Are we making satisfactory progress in implementing the approach? If not, what are the problems, and what are we doing to overcome them?
10. How do we assure ourselves that formal statements in response to GAO reports are prepared and submitted properly?

Suggested References:

Audit of Federal Operations and Programs, Circular No. A-73, Office of Management and Budget, 1983.

Audit Followup, Circular No. A-50, Office of Management and Budget, 1982.

Codification of Statements on Auditing Standards, American Institute of Certified Public Accountants, 1984.

Cognizant Audit Agency Guidelines, Joint Financial Management Improvement Program, 1981.

"Single Audit Act of 1984," (P.L. 98-502).

Standards for Audit of Governmental Organizations, Programs, Activities and Functions, General Accounting Office, 1981.

Supplement to Guidelines for Financial and Compliance Audits of Federally Assisted Programs, Office of Management and Budget, August 1980.

Uniform Requirements for Grants to State and Local Governments, Circular No. A-102, Office of Management and Budget, 1981.

Uniform Requirements for Grants to Universities, Hospitals and Other Nonprofit Institutions," Circular No. A-110, Office of Management and Budget, 1976.

CHAPTER XVI

TRAINING AND DEVELOPMENT OF FINANCIAL STAFF

A key element to an effective financial organization is a capable and motivated staff. Financial managers and supervisors get work done through others. Providing relevant training can improve the work product as well as managers' own performances and achievements. Training can be used for three general purposes:

- To improve staff productivity on current assignments,
- To develop staff for new assignments, and
- To bring about changes in the activities to which staff members are assigned.

Formal training is not always necessary; there are less expensive alternatives. Desired performance may be achieved simply by telling people what is expected of them, providing feedback in their actual performance, and rewarding those who perform well and disciplining those who do not do what is expected.

Another alternative is on-the-job training which can be improved by performing the following tasks:

- Analyze the job. List the tasks that make up the job and decide which tasks require training.
- Set training objectives. Specify what people should be able to do if the training is successful.
- Train people carefully. Tell people what they are supposed to do, show them how to do it, and have them show you that they can do it.
- Evaluate the training. Allow time for people to practice what you have taught. Follow up to see that the desired results are being achieved.

Formal classroom training may be needed to provide the necessary skills required for the job. Training is available from various sources.

Agency Conducted Training

A large portion of training by the Federal Government is performed by individual departments and agencies for their own staffs. In-house training offers the advantages of having training conveniently located at the employees' work site during normal working hours and training which is custom tailored to an agency's specific needs, procedures and operations.

Interagency Training

Several organizations in the Federal Government provide interagency financial management training. Numerous courses in financial management are offered on an interagency basis by the Management Sciences Training Center in the Office of Personnel Management (OPM). These courses may also be tailored by OPM to the unique needs of individual agencies or if agencies desire to do their own training, OPM will provide the materials, train the agency instructors, and help install the course. Course topics include agency budget preparation procedures, budget execution, cash management and internal control.

The Interagency Auditor Training Program sponsored by the Department of Agriculture Graduate School offers training courses on auditing, including such topics as statistical sampling, effective governmental auditing techniques, operational auditing, and written and oral communications.

Many entities are now providing courses for management on the use of computer technology. The Computer Audit Committee of the President's Council on Integrity and Efficiency has developed several training courses on microcomputers that include skills development, introductory courses for executives and senior managers. These training courses are given by the Interagency Auditor Training Program, General Services Administration (GSA) Training Centers, Office of Personnel Management, and the Federal Law Enforcement Training Center.

The GSA Training Centers also provide a wide range of training courses including the procurement of computer equipment and ADP services, the use of office automation, and the evaluation and selection of personal computers. Several agencies have established information technology centers to assist potential microcomputer users within their organizations in selecting hardware and software. Assistance in the installation and operation of the equipment and software may also be provided.

The Joint Financial Management Improvement Program sponsors and conducts an annual financial management conference in the spring of each year. It periodically conducts workshops on current issues of financial management topics such as internal control, cash management and use of microcomputers in financial management.

Professional Associations

Several professional associations offer training at conferences, seminars, workshops and meetings focused on financial management. Representative examples are the spring and fall seminars sponsored by the American Association for Budget and Program Analysis, and the professional development conference conducted by the Association of Government Accountants, and the annual symposium offered by the American Society of Auditing

Comptrollers. Additional courses and workshops are also available through these and other professional organizations.

The following questions may be of assistance in assessing your agency's financial training opportunities:

1. What kind of a formal policy do we have to encourage training and development of employees?
2. How do we provide counseling to assist employees in choosing the courses that best suit their needs?
3. How are training opportunities from numerous sources made available to employees?
4. How do managers follow up to determine that training has had the desired results and is improving employee performance?
5. To what extent are supervisors and managers afforded an opportunity to obtain at least rudimentary training in the elements of financial management, i.e., the Federal budget process, internal control and accounting?

Suggested Contacts for Training Courses

Federal Executive Institute
Office of Personnel Management
1301 Emmet Street
Charlottesville, VA 22903
FTS 938-1295
Commercial (804) 296-0181

General Services Administration Training Center
P.O. Box 15608
Arlington, VA 22215
FTS 557-0986
Commercial (703) 557-0986

Graduate School, USDA
600 Maryland Avenue, SW
Washington, DC 20024
FTS 447-2187
Commercial (202) 447-2187

Interagency Auditor Training Programs
Graduate School, USDA
600 Maryland Avenue, SW
Room 138
Washington, DC 20024
FTS 382-8620
Commercial (703) 382-8620

Office of Personnel Management
Financial Management Training Institute
P.O. Box 7230
Washington, DC
FTS 632-5600
Commercial (202) 632-5600

For additional copies, please contact:

Joint Financial Management Improvement Program
666 Eleventh Street, NW - Suite 705
Washington, DC 20001
(202) 376-5415